

5118  
No. 9735

---

United States  
Circuit Court of Appeals  
For the Ninth Circuit.

---

GEORGE D. MARTIN, as Internal Revenue Agent  
in Charge for the Sixth United States Internal  
Revenue Collection District of California,  
Appellant,

vs.

CHANDIS SECURITIES COMPANY and H. E.  
DOWNING, as Assistant Secretary of Chandis  
Securities Company,  
Appellees.

---

Transcript of Record

---

Upon Appeal from the District Court of the  
United States for the Southern District  
of California, Central Division.

FILED

MAY - 1 1941

PAUL P. O'BRIEN,  
CLERK



United States  
Circuit Court of Appeals

For the Ninth Circuit.

---

GEORGE D. MARTIN, as Internal Revenue Agent  
in Charge for the Sixth United States Internal  
Revenue Collection District of California,  
Appellant,

vs.


CHANDIS SECURITIES COMPANY and H. E.  
DOWNING, as Assistant Secretary of Chandis  
Securities Company,  
Appellees.

---

Transcript of Record

---

Upon Appeal from the District Court of the  
United States for the Southern District  
of California, Central Division.



Digitized by the Internet Archive  
in 2010 with funding from  
Public.Resource.Org and Law.Gov



## INDEX

---

[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in *italic*; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in *italic* the two words between which the omission seems to occur.]

	Page
Affidavit of Charles W. Donnally.....	73
Affidavit of H. E. Downing (March 19, 1940) (for detailed index see "Notice of Motion to Quash" etc. below).....	24
Affidavit of H. E. Downing, Counter (May 14, 1940) .....	150
Affidavit of H. E. Downing (April 19, 1940).....	136
Affidavit of Warner E. Williams (May 9, 1940)	148
Affidavit of Warner E. Williams (April 6, 1940)	76
Exhibits to Affidavit:	
1—Letter dated November 25, 1931.....	80
2—Protest to Internal Revenue Agent...	87
3—Letter dated March 28, 1932.....	90
4—Letter dated April 4, 1932.....	92
5—Memo. from George M. Thompson...	95
6—Income Tax Return for 1929.....	100
7—Income Tax Return for 1930.....	112
9—Corporation Income Tax Return for 1923 .....	125

Index	Page
Affidavit, Counter, of H. E. Downing (May 14, 1940) .....	150
Appeal:	
Designation of Appellant of Record on (Circuit Court of Appeals).....	258
Designation of Appellee of Record on (Circuit Court of Appeals).....	263
Notice of .....	157
Order Extending Time on.....	159
Attorneys, Names and Addresses of.....	1
Certificate of Clerk to Transcript of Record.....	163
Counter Affidavit of H. E. Downing.....	150
Designation, Appellant's, of Record on Appeal (Circuit Court of Appeals).....	258
Designation, Appellee's, of Additional Portions of Record on Appeal (Circuit Court of Appeals) .....	263
Names and Addresses of Attorneys.....	1
Notice of Appeal.....	157
Notice of Motion to Quash Order for Production of Records.....	19
Affidavit of H. E. Downing.....	24
Exhibits to Affidavit:	
1—Letter of Commissioner.....	37
2—Letter in Reply.....	38

Index	Page
3—Copy of Summons Duces Tecum .....	40
4—Letter of H. E. Downing to Martin .....	41
5—Stipulation of Facts.....	43
6—Opinion, Board of Tax Appeals	48
7—Findings of Fact and Opinion...	58
8—Commissioner's Letter of Final Determination .....	67
Opinion, Memorandum .....	152
Order for Production of Records.....	13
Order Continuing Return Date of Order for Production of Records.....	16, 17
Order Continuing Hearing on Return Date of Order .....	135, 141
Order of June 10, 1940, Granting Motion to Quash Order for Production of Records.....	151
Order Extending Time to Docket Record on Appeal .....	159
Petition for Production of Records.....	2
Exhibits to Petition:	
A—Letter dated March 31, 1938.....	9
B—Summons .....	10
C—Affidavit of Warner E. Williams.....	12

Index	Page
Statement of Points on Appeal (District Court)	160
Statement of Points on Appeal (Circuit Court of Appeals) .....	258
Testimony (Exhibits):	
For Petitioner:	
1—Corporation Income Tax Return of Chandis Securities Company for the Year 1929 .....	240
For Respondent:	
A—Transcript of Record in the case of Marion Otis Chandler vs. Com- missioner of Internal Revenue, Board of Tax Appeals Docket No. 67468 (Circuit Court of Appeals No. 8262) .....	165
First Amended Petition.....	165
Answer to Amended Petition.....	173
Statement of Evidence.....	176
Exhibits for petitioner:	
1—Group of promissory notes showing cancel- lations .....	222
2—Stock certificates Nos. 30 to 37 inclusive, is- sued to various indi- viduals and dated Jan- uary 2, 1930.....	226

Index	Page
3—Balance sheet of Chandis Securities Company prepared by Horace E. Downing, dated December 31, 1929.....	229
4—Journal entries showing increase in capital stock .....	231
5—Stock certificates, Nos. 38 to 47, inclusive, issued to various individuals and dated May 7, 1930 .....	237
Witnesses for petitioner:	
Downing, Horace E.	
—direct .....	177
—cross .....	196
—redirect .....	211
—recross .....	216
—redirect .....	217
—cross .....	219



## NAMES AND ADDRESSES OF ATTORNEYS

### For Appellant:

WM. FLEET PALMER, Esq.,  
United States Attorney,  
E. H. MITCHELL, Esq.,  
Assistant United States Attorney,  
EUGENE HARPOLE, Esq.,  
Special Attorney, Bureau of Internal Revenue,  
SAMUEL TAYLOR, Esq.,  
Special Attorney, Bureau of Internal Revenue,  
Federal Building,  
Los Angeles, California.

### For Appellees:

A. CALDER MACKAY, Esq.,  
1104 Pacific Mutual Building,  
Los Angeles, California.  
T. B. COSGROVE, Esq.,  
F. J. O'NEIL, Esq.,  
F. B. YOAKUM, Jr., Esq.,  
1031 Rowan Building,  
Los Angeles, California. [1\*]

---

\*Page numbering appearing at foot of page of original certified Transcript of Record.

In the District Court of the United States, in and  
for the Southern District of California  
Central Division

No. Misc. M-4-Y

GEORGE D. MARTIN, as Internal Revenue Agent  
in Charge for the Sixth United States Internal  
Revenue Collection District of California,  
Petitioner,

v.

CHANDIS SECURITIES COMPANY and H. E.  
DOWNING, as Assistant Secretary of Chan-  
dis Securities Company,  
Respondents.

PETITION FOR PRODUCTION  
OF RECORDS

To the Honorable Judges of the United States  
District Court:

George D. Martin, as Internal Revenue Agent in  
Charge of the Sixth Internal Revenue District of  
California, by Ben Harrison, United States Attor-  
ney for the Southern District of California, E. H.  
Mitchell, Assistant United States Attorney for said  
District, and Eugene Harpole, Special Attorney,  
United States Bureau of Internal Revenue, his at-  
torneys, respectfully shows to the Court:

I.

That this proceeding is commenced at the request  
of the Attorney General of the United States and



is authorized and sanctioned by the United States Commissioner of Internal Revenue.

## II.

That he, George D. Martin, is now and at all times since October 1, 1933, has been the United States Internal Revenue Agent [2] in Charge for the Bureau of Internal Revenue in the Sixth Internal Revenue Collection District of California, with his post of duty at Los Angeles, California, and as such Internal Revenue Agent in Charge, is designated to make examinations of tax returns required to be filed under the provisions of the Internal Revenue law. That he, the said Internal Revenue Agent in Charge, is required, with the assistance of Revenue Agents directly under his supervision, to examine books, records and other memoranda bearing upon any matter under investigation. That he is authorized to require the attendance before him of any person rendering a return or any other person having knowledge in the premises to give testimony concerning such matters and to produce and testify as to the contents of such records, papers and memoranda having a bearing upon such investigation as may be under his or their custody and control. A copy of the authorization of said George D. Martin is attached hereto as Exhibit "A".

## III.

The said respondent, Chandis Securities Company, is a corporation duly organized and existing

under and by virtue of the laws of the State of California, with its principal place of business in the Times Building at First and Spring Streets in Los Angeles, California. The said respondent, H. E. Downing, is a resident of the City of Los Angeles, State of California, and the Assistant Secretary of said Chandis Securities Company and as such Assistant Secretary, is in charge of the records, papers and memoranda of said corporation. That Marian Otis Chandler is the Secretary of said Chandis Securities Company and the maker of an individual Federal income tax return for the year 1930, which return is now under investigation by your petitioner. That said respondents have under their control and in their custody certain records bearing upon the [3] matters required to be included in said tax return of Marian Otis Chandler for the year 1930.

#### IV.

On November 30, 1939, he, George D. Martin, pursuant to his duty and authorization as aforesaid, being engaged, through Revenue Agents Warner E. Williams and Lawrence W. Gibney directly under his supervision, in an investigation of the tax liability of Marian Otis Chandler for the year 1930, served upon said respondents a summons requiring respondents to appear before him, said George D. Martin, Internal Revenue Agent in Charge, as aforesaid, on the 11th day of December, 1939, at 10 o'clock in the forenoon at Room 1250, United States Post Office and Court House, Los

Angeles, California, to give testimony in the matter of the tax liability of the said Marian Otis Chandler for the year indicated heretofore and to bring with them the following books and papers:

Records of Chandis Securities Company for the years 1916 to 1930, inclusive, as follows: Minute books; capital stock certificate books, ledgers and journals; all accounting books and records including general ledgers, together with all vouchers, correspondence and other written data supporting the original entries in said accounting books; all promissory notes of Chandis Securities Company issued, assigned, endorsed, or otherwise transferred during said years to Marian Otis Chandler, Franceska Chandler Kirkpatrick, May Chandler Goodan, Helen Chandler, Philip Chandler, Ruth Chandler Williamson, Harrison Gray Chandler, Constance Chandler, and Norman Chandler which have been paid or otherwise cancelled. [4]

A copy of said summons is attached hereto and marked Exhibit "B". The said books, records and memoranda and said testimony of respondents being books, records, memoranda and testimony bearing and touching upon the investigation of the tax liability of said Marian Otis Chandler for the year 1930, the same being under investigation as aforesaid.

#### V.

On November 30, 1939, said summons was duly delivered to respondents by being physically handed

to respondent H. E. Downing, personally, by Revenue Agents Lawrence W. Gibney and Warner E. Williams.

## VI.

Thereafter said respondents failed and refused to appear in answer to said summons and still continue in such failure and refusal, giving as their reasons therefor the matters set forth in the following letter:

### “CHANDIS SECURITIES COMPANY

Times Building

Los Angeles, California

December 11, 1939

“Honorable George D. Martin,  
Internal Revenue Agent in Charge,  
Los Angeles, California.

In the Matter of the Tax Liability  
of Marian Otis Chandler—Year 1930

“Dear Sir:

“Reference is made to your ‘Summons to Appear, to Testify and to Produce Books, etc.’ in the matter of Marian Otis Chandler for the year 1930, addressed to [5] Chandis Securities Company, H. E. Downing, Assistant Secretary, dated November 30, 1939, requiring appearance on December 11, 1939, of said Assistant Secretary, and the production of numerous books, accounts, records, etc. for the years 1916 to 1930, inclusive.

“The records that you now wish to examine, many of which are probably lost or destroyed, have been examined many times by your agents. We believe the provisions of the statute and the Constitution protect us against unreasonable searches or investigations and we respectfully suggest that the proposed search and investigation is unreasonable, unnecessary and oppressive. If we are correct in this conclusion it would follow that we are privileged to resist the subpoena. For your consideration we submit the correctness of our position.

“Assuring you of our desire at all times to cooperate with your agents in the examination of books and records, and also to comply with summons or subpoenas issued under legal authority, we are

Respectfully yours,

CHANDIS SECURITIES  
COMPANY

(signed) H. E. DOWNING

Assistant Secretary”

## VI.

Petitioner requests the aid of the Court in the premises, and, therefore, prays that an Order be issued requiring the said Chandis Securities Company and H. E. Downing, respondents as aforesaid, to appear before the said George D. Martin, Internal Revenue Agent in Charge, as aforesaid, at the office of the said Internal [6] Revenue Agent in



Charge, Room 1250 United States Post Office and Court House, Los Angeles, California, on the 11th day of March, 1940, at 10 o'clock in the forenoon and then and there produce said records and give said testimony as above referred to. This Petition is supported by the Affidavit of Warner E. Williams, hereto attached and marked Exhibit "C" and by reference made a part hereof, and the Memorandum of Points and Authorities appended as Exhibit "D".

GEORGE D. MARTIN,  
Internal Revenue Agent in Charge.  
BEN HARRISON,  
United States Attorney,  
E. N. MITCHELL,  
Asst. U. S. Attorney,  
EUGENE HARPOLE,  
Special Attorney,  
Bureau of Internal Revenue,  
By EUGENE HARPOLE,  
Attorneys for Petitioner.

State of California,  
County of Los Angeles—ss.

George D. Martin, of full age, being duly sworn on his oath, says:

I am the Internal Revenue Agent in Charge in and for the Sixth Internal Revenue Collection District with my post of duty at Los Angeles, State of California. I have read the above Petition and

the matters and things therein contained are true to the best of my knowledge, information and belief.

GEORGE D. MARTIN

Subscribed and sworn to before me this 4th day of March, 1940.

[Seal]

JAMES F. SHEEHY,

Notary Public in and for the County of Los Angeles, State of California. [7]

EXHIBIT "A"

IT:F:FN

March 31, 1938

Mrs. Marian Otis Chandler,  
Los Angeles, California.

Dear Madam:

While it is the policy of the Bureau to make as few inspections of books of account and records of taxpayers as possible, it is deemed necessary before finally closing your income tax case to make a re-investigation of your books and records for the year 1930 in order to properly verify your return for that year. A re-examination therefore will be made.

I am sure you will permit our representatives to have access to all of your books and records and that you will cooperate fully with them. I trust this will not cause you any inconvenience.

This notice is sent in compliance with Section 1105 of the Revenue Act of 1926.

Very truly yours,

(signed) MILTON E. CARTER

Acting Commissioner.

RN. [8]

## EXHIBIT "B"

SUMMONS TO APPEAR, TO TESTIFY, AND  
TO PRODUCE BOOKS, ETC.

In the matter of the tax liability of  
MARIAN OTIS CHANDLER

District of 6th California, for the year 1930.

The Commissioner of Internal Revenue To Chandis  
Securities Company, H. E. Downing, Assistant  
Secretary, Residing at Los Angeles, California.

Greeting:

You are hereby summoned and required to appear before the undersigned Internal Revenue Agent in Charge, at Room 1250, U. S. Post Office and Court House, Los Angeles, California on the 11th day of December, 1939, at 10 o'clock in the forenoon, to give testimony in the matter of the tax liability of the above-named person for the year designated, and directed to bring with you the following books and papers:

Records of Chandis Securities Company for the years 1916 to 1930, inclusive, as follows: Minute books; capital stock certificate books, ledgers and journals; all accounting books and records including general ledgers, journals, cash books, other written data supporting the original entries in said accounting books; all promissory notes of Chandis Securities Company issued, assigned, endorsed, or otherwise transferred during said years to Marian Otis Chandler, Franceska Chandler Kirkpatrick, May Chandler Goodan, Helen Chandler, Philip



Chandler, Ruth Chandler Williamson, Harrison Gray Chandler, Constance Chandler, and Norman Chandler which have been paid or otherwise cancelled.

Failure to comply with this summons will render you liable to proceedings in the district court of the United States for the district in which you reside, to compel your attendance, testimony, and production of books, etc.

Witness my hand this 30th day of November, 1939.

(signed) GEORGE D. MARTIN

Internal Revenue Agent in Charge. [9]

Excerpts from the Internal Revenue Code.

Sec. 3614. The Commissioner, for the purpose of ascertaining the correctness of any return or for the purpose of making a return where none has been made, is hereby authorized, by any officer or employee of the Bureau of Internal Revenue, including the field service, designated by him for that purpose, to examine any books, papers, records, or memoranda bearing upon the matters required to be included in the return, and may require the attendance of the person rendering the return or of any officer or employee of such person, or the attendance of any other person having knowledge in the premises, and may take his testimony with reference to the matter required by law to be included in such return, with power to administer oaths to such person or persons.

Sec. 3633. (a) If any person is summoned under the internal-revenue laws to appear, to testify, or

to produce books, papers, or other data, the district court of the United States for the district in which such person resides shall have jurisdiction by appropriate process to compel such attendance, testimony, or production of books, papers, or other data.

## EXHIBIT "C"

### AFFIDAVIT

State of California

County of Los Angeles—ss.

Warner E. Williams, being duly sworn, deposes and states, as follows:

1. That he is employed as an Internal Revenue Agent by the Bureau of Internal Revenue, assigned to duty at Los Angeles, California, and has been so employed since the year 1923;

2. That he is familiar with the Federal income tax return filed by Marian Otis Chandler for the calendar year 1930, and the Government's attempt to determine why certain asserted interest income in excess of \$650,000.00 was not reported thereon;

3. That the asserted interest income at issue was received by Marian Otis Chandler from the Chandis Securities Company, a corporation;

4. That most of the facts in connection with the receipt of this asserted interest income, the manner of its accrual, and its value at the date of receipt for taxation purposes, are contained in the books and records of the Chandis Securities Company for the years 1916 to 1930, inclusive;

5. That one H. E. Downing, Assistant Secretary of the Chandis Securities Company, has unusual personal knowledge of said transactions;

6. That it is necessary that representatives of the Bureau of Internal Revenue examine the books and records of the Chandis Securities Company for the years 1916 to 1930, inclusive, and question said H. E. Downing, in order to determine whether Marian Otis Chandler committed a fraud against the Revenue by failing [10] to report upon the income tax return filed by her for the calendar year 1930 a large sum of asserted interest income received by her from the said Chandis Securities Company in the year 1930.

WARNER E. WILLIAMS

Subscribed and sworn to before me this 4 day of March, 1940.

[Seal]

JAMES F. SHEEHY

Notary Public in and for the County of Los Angeles, State of California.

\* \* \* \* \*

[Endorsed]: Filed March 5, 1940. [11]

---

[Title of District Court and Cause.]

## ORDER FOR PRODUCTION OF RECORDS

It appearing to the Court from the Petition of George D. Martin, by Ben Harrison, United States Attorney for the Southern District of California, E. H. Mitchell, Assistant United States Attorney for

the said District, and Eugene Harpole, Special Attorney, United States Bureau of Internal Revenue, his attorneys, that:

I.

George D. Martin is the Internal Revenue Agent in Charge for the Collection District of California, United States Bureau of Internal Revenue at Los Angeles and in the Sixth Internal Revenue District and is, as such, required to examine books, papers and other memoranda bearing upon any matter required to be included in any tax return required under the Internal Revenue Laws; that he as said Internal Revenue Agent in Charge has the income tax liability of Marian Otis Chandler for the year 1930 assigned to him for investigation; that in such investigations said Internal Revenue Agent in Charge is [26] authorized to require the attendance before him of any person rendering a return, or of any officer or employee of such person, or the attendance of any other person having knowledge in the premises and may take his testimony with reference to the matters required by law to be included in such return; and it further appearing that the respondents are persons having knowledge in the premises and as such have in their custody and under their control certain records which are necessary for examination for the purpose of determining the accuracy of the return of Marian Otis Chandler for the year 1930; and it further appearing that the said respondents are residents of the County and City of Los Angeles in the State of

California; and it further appearing that in pursuance of the statutes the said Internal Revenue Agent in Charge served upon the respondents a summons to appear before him and produce certain records and give testimony with reference to the matters required by law to be included in the return of the said Marian Otis Chandler, the records being more particularly described as follows:

“Records of Chandis Securities Company for the years 1916 to 1930, inclusive, as follows: Minute books; capital stock certificate books, ledgers and journals; all accounting books and records including general ledgers, journals, cash books, auxiliary registers and ledgers, together with all vouchers, correspondence and other written data supporting the original entries in said accounting books; all promissory notes of Chandis Securities Company issued, assigned, endorsed, or otherwise transferred during said years to Marian Otis Chandler, Franceska Chandler Kirkpatrick, May Chandler Goodan, Helen Chandler, Philip Chandler, Ruth Chandler Williamson, Harrison Gray Chandler, Constance Chandler, and Norman Chandler which have been paid or otherwise cancelled.” [27]

And it further appearing that the said respondents having ignored the said summons and having refused to appear before the said Internal Revenue Agent in Charge and testify concerning or to produce said books, records and papers of said respond-



ents and that the Government requests the aid of the Court in the premises,

It Is, Therefore, on this 5th day of March, 1940, Ordered that the said Chandis Securities Company and H. E. Downing, its Assistant Secretary appear before the said George D. Martin, Internal Revenue Agent in Charge, as aforesaid, at the office of said Internal Revenue Agent in Charge, Room 1250, United States Post Office and Court House, Los Angeles, California, on the 11th day of March, 1940, at 10 o'clock in the forenoon, and produce the above described records and give testimony with reference to those records and to the matters required by law to be included in the return of said Marian Otis Chandler for the year indicated.

Dated: This 5th day of March, 1940.

LEON R. YANKWICH

United States District Judge

[Endorsed]: Filed Mar. 5, 1940. [28]

---

[Title of District Court and Cause.]

ORDER CONTINUING RETURN DATE OF  
ORDER FOR PRODUCTION OF RECORDS

Upon reading and filing the affidavit of T. B. Cosgrove, and good cause appearing therefor,

It is hereby Ordered that the return date upon the "Order for Production of Records" heretofore issued in the above mentioned cause be, and the same is hereby continued to Monday, March 20,

1940, at 10 o'clock A. M., in Room 1250 United States Post Office and Court House, Los Angeles, California; this order is without prejudice to the rights of respondents or either of them to move to quash said "Order for Production of Records", or otherwise oppose the same.

It is Further Ordered, that a copy of this Order, together with a copy of the affidavit in support of the request therefor, be served upon Eugene Harpole, Special Attorney, United States Bureau of Internal Revenue, on or before March 9, 1940.

Dated: March 9, 1940.

WM. P. JAMES

District Judge.

[Endorsed]: Filed Mar. 9, 1940. [30]

---

[Title of District Court and Cause.]

ORDER CONTINUING RETURN DATE OF  
ORDER FOR PRODUCTION OF RECORDS

Petitioner, by his attorney, Eugene Harpole, Esq., and respondents, by their attorneys, T. B. Cosgrove, Esq. and F. B. Yoakum, Jr., Esq., having heretofore stipulated that the return date upon the Order for Production of Records heretofore issued might be continued to April 8, 1940, and good cause appearing therefor,

It Is Hereby Ordered that the return date upon said Order for Production of Records be, and the same is, hereby continued to April 8, 1940, at 10:00

o'clock, A. M., in Room 1250, United States Post Office and Court House, Los Angeles, California; this order is without prejudice to the rights of respondents, or either of them, to move to quash said Order for Production of Records or otherwise oppose the same.

Dated, March 15, 1940.

LEON R. YANKWICH

District Judge

Approved as to form as required by Rule 8.

BEN HARRISON,

U. S. Attorney

E. H. MITCHELL,

Assistant U. S. Attorney

EUGENE HARPOLE,

Special Attorney, U. S. Bureau of Internal Revenue,

By EUGENE HARPOLE

Attorneys for Petitioner

[Endorsed]: Filed March 15, 1940. [31]



[Title of District Court and Cause.]

NOTICE OF MOTION TO QUASH ORDER  
FOR PRODUCTION OF RECORDS

To George D. Martin, as Internal Revenue Agent in Charge for the Sixth United States Internal Revenue Collection District of California, Petitioner; and Ben Harrison, United States Attorney, E. H. Mitchell, Assistant United States Attorney, and Eugene Harpole, Special Attorney, Bureau of Internal Revenue, Attorneys for Petitioner:

You and each of you will please take notice that on Monday, April 8, 1940, at 10 o'clock A. M., or as soon thereafter as counsel can be heard, Chandis Securities Company and H. E. Downing (individually and as Assistant Secretary of Chandis Securities Company) will move the above court, in the Court Room of Honorable Leon R. Yankwich, judge thereof, in the United States Post Office and Court House, with reference to the Order for Production of Records issued out of the above entitled court on March 5, 1940, for an order as follows:

1. Quashing and vacating said Order for Production of Records; [33]

2. Quashing and vacating said Order for Production of Records in so far as it seeks to compel production of each or any of the following records of Chandis Securities Company:

- (a) Minute Books;
- (b) Capital Stock Certificate Books;
- (c) Ledgers;

- (d) Journals;
- (e) Accounting Books;
- (f) Accounting Records;
- (g) General Ledgers;
- (h) Cash Books;
- (i) Auxiliary Registers;
- (j) Auxiliary Ledgers;
- (k) Vouchers supporting original entries in the above designated accounting books;
- (l) Correspondence supporting the original entries in the above designated accounting books;
- (m) Other written data supporting the original entries in the above designated accounting books;
- (n) Promissory notes of Chandis Securities Company issued or assigned or endorsed, or otherwise transferred, during the years 1916 to 1930, inclusive, to:

- (1) Marian Otis Chandler, or
- (2) Franceska Chandler Kirkpatrick, or
- (3) May Chandler Goodan, or
- (4) Helen Chandler, or
- (5) Philip Chandler, or
- (6) Ruth Chandler Williamson, or
- (7) Harrison Gray Chandler, or
- (8) Constance Chandler, or
- (9) Norman Chandler, [34]

which have been paid or otherwise cancelled;

3. For such other relief as may be proper.

Said motion will be made by the respondents, the

moving parties herein, jointly and severally, and by said H. E. Downing, both individually and in his capacity as Assistant Secretary of Chandis Securities Company, and will be made, severally and collectively, upon each of the following grounds:

1. Said Order is unreasonable and oppressive and the enforcement thereof would be an abuse of the process of the court.

2. Enforcement of said Order would subject said Chandis Securities Company to unnecessary examination and investigation in violation of the provisions of Section 3631 of the Internal Revenue Code.

3. Enforcement of said Order would constitute an unreasonable search and seizure of the property of Chandis Securities Company contrary to the provisions of the Fourth Amendment of the Constitution of the United States.

4. Enforcement of said Order would result in the taking of the property of Chandis Securities Company, namely, the books and records necessary to the orderly conduct of its business, without compensation and without due process of law, in violation of its rights, privileges and immunities under the Fifth Amendment of the Constitution of the United States.

5. The income tax return of said Marian Otis Chandler for the year 1930 was filed in good faith and within the time allowed by law; the income taxes assessed by reason of said return and any deficiency assessment for said year were duly settled

and paid; the time for further assessment and collection of such taxes for said year had expired by operation of law prior to the granting of the order herein sought to be vacated, unless said return was false or fraudulent with intent to evade tax; [35] there is no proof or prima facie showing that said return was false or fraudulent with intent to evade tax; there is no showing that said Marian Otis Chandler ever waived the limitation of time within which such further tax could be assessed.

6. Said order is oppressive and unlawful in that it requires the respondents and each of them to submit to repeated search and examination of themselves and their private files, records and property, without probable cause or reasonable necessity therefor being shown.

7. Compliance with said Order would not add to the information concerning the 1930 return of said Marian Otis Chandler which is already in the possession of or otherwise readily available for the use of the Commissioner of Internal Revenue.

8. It affirmatively appears from the files and records in this proceeding that there is no reasonable necessity or probable cause for a re-examination or re-investigation of the income tax liability of Marian Otis Chandler for the year 1930 because of the receipt of the alleged "interest income" referred to in the petition herein.

9. No one of the documents called for and which relates to a period prior to the year 1929 is shown

to be material or probably material to an investigation of the 1930 income tax return of Marian Otis Chandler.

10. It affirmatively appears that all records herein called for have already been subjected to examination by the Commissioner of Internal Revenue, his deputies and agents, in connection with the so-called "interest income" item referred to in the Petition, and further examination is unjustified, unlawful and oppressive unless some showing is made of fraud or reasonable ground for suspicion of fraud. [36]

11. The letter dated March 31, 1938 (Exhibit A to the Petition of said George D. Martin), does not constitute a good, sufficient or legal basis for the additional inspection, examination and investigation sought by the petitioner and required by the Order.

12. Said Order requires production of records not specified in the Petition, namely: Cash Books, Auxiliary Registers and Auxiliary Ledgers.

Said motion will be based upon this Notice of Motion, the affidavit of H. E. Downing attached hereto, the records and files of this cause, the points and authorities attached hereto, the transcript of record in that certain cause entitled "Commissioner of Internal Revenue vs. Marian Otis Chandler", being proceeding number 8262 in the files and records of the United States Circuit Court of Appeals for the Ninth Circuit, which said transcript (or a true copy thereof) will be offered in evidence at the



Securities Company for the years 1916 to 1930, inclusive, and bring with him the books, records and papers designated in Paragraph IV of the petition herein, a copy of said summons being attached hereto and marked "Exhibit 3".

That on December 11, 1939 a letter, bearing that date and addressed to said petitioner, was signed by affiant as Assistant Secretary of said Chandis Securities Company and was, as affiant is informed and believes, delivered to said petitioner on that date; that a copy of said letter is attached hereto and marked "Exhibit 4".

That neither affiant nor Chandis Securities Company has received any notice or has any knowledge or information to the effect that the petitioner has abandoned or intends to abandon his attempt to examine the books and records specified in the Court's order in connection with the tax liability of Chandis Securities Company for the years 1916 to 1930, inclusive.

That affiant on or about October 5, 1933 testified under oath in proceedings before the United States Board of Tax Appeals in the following named cases:

**Name****Docket No.**

Mrs. Marian Otis Chandler	vs. Commissioner of Internal Revenue	67468
Ruth Chandler Williamson	vs. Commissioner of Internal Revenue	67469
Harrison Gray Chandler	vs. Commissioner of Internal Revenue	67470
Constance Chandler	vs. Commissioner of Internal Revenue	67471
May Chandler Goodan	vs. Commissioner of Internal Revenue	67472
Norman Chandler	vs. Commissioner of Internal Revenue	67473
Dr. John L. Kirkpatrick	vs. Commissioner of Internal Revenue	67474
Helen Chandler	vs. Commissioner of Internal Revenue	67475

[39]

Philip Chandler	vs. Commissioner of Internal Revenue	67476
-----------------	--------------------------------------	-------

and the testimony given by affiant both on direct and cross examination in said proceedings related to the tax liability of the aforementioned taxpayers on account of the receipt by them of shares of stock of Chandis Securities Company issued in exchange for its notes, including accrued interest, held by them.

That the interest that had accrued, at the times hereinafter more particularly set out, on the notes of the Chandis Securities Company held by Marian Otis Chandler, amounted to \$661,369.56. Affiant believes and therefore states that this is the same item that is referred to as "asserted interest income" in the affidavit of Warner E. Williams filed in support of the petition in this proceeding. That there were no payments or credits of interest made by Chandis Securities Company to Mrs. Marian Otis Chandler during the year 1930, except in the manner herein outlined.

That in the "Statement of Recomputation" of the tax liability of Marian Otis Chandler for the year 1929, submitted by the Commissioner of Internal Revenue to the Board of Tax Appeals pursuant to its opinion rendered therein, and hereinafter more particularly referred to, the Commissioner made the following statement:

"In accordance with the decision of the United States Board of Tax Appeals the petitioner did not realize any taxable income in 1929 in connection with the transaction whereby she received stock of Chandis Securities Com-

pany, Los Angeles, California, in payment of a promissory note of that corporation amounting to \$810,687.06 and accrued interest thereon in the amount of \$661,369.56. Accordingly, the amount of \$661,369.56 has been eliminated from the net income, disclosed by the sixty-day letter."

Affiant further states that this is the only item of interest "in excess of \$650,000," that was ever owed by Chandis Securities Company to Marian Otis Chandler. Affiant further states that of the total sum of \$661,369.56 the amount of \$294,950.76 represented interest accrued to December 31, 1923 on notes of Chandis Securities Company held by Marian Otis Chandler; that on December 31, 1923 new notes were issued for the old notes and accrued interest; that the interest which accrued on the renewal [40] notes from January 1, 1924 to December 31, 1929 was \$366,418.80, developing a total of \$661,369.56, the amount referred to in the petition as "in excess of \$650,000."

That the facts relating to the aforementioned exchange of notes and accrued interest for stock of Chandis Securities Company (except the time of the receipt of said stock by the aforementioned taxpayers) were stipulated by the respective counsel for the Commissioner and the taxpayers and were submitted to and accepted by the Board of Tax Appeals in the foregoing proceedings, a copy of said stipulation being attached hereto and marked "Exhibit 5".



That the Board of Tax Appeals under date of June 7, 1935 promulgated its opinion, a copy of which is attached hereto and marked "Exhibit 6", wherein the Board of Tax Appeals held that the aforementioned taxpayers received the stock of Chandis Securities Company for said notes and interest during the year 1930.

That appeals from the decisions of the Board of Tax Appeals in the above entitled cases were taken to the Circuit Court of Appeals for the Ninth Circuit, and the case of Marian Otis Chandler was selected as a test case, the others having been held in abeyance, that said case of Marian Otis Chandler was entitled "Commissioner of Internal Revenue, Petitioner, v. Marian Otis Chandler, Respondent, No. 8262"; and the Circuit Court of Appeals, in a decision dated April 12, 1937 and reported in 89 Fed. (2d) 332, affirmed the decision of the Board of Tax Appeals.

That in the proceedings before the United States Board of Tax Appeals in behalf of Marian Otis Chandler and the other taxpayers above mentioned there were submitted by stipulation true copies of the minutes of the board of directors of Chandis Securities Company having to do with the adoption and consummation of the plan of reorganization of Chandis Securities Company and the exchange, pursuant to that plan, of stock of Chandis Securities Company for its notes held by the aforementioned individuals.

That in the said proceedings before the United States Board of Tax Appeals there was offered and

received in evidence the stock certificate book of Chandis Securities Company, which after having been identified and received, was withdrawn and photostatic copies of the stubs and certificates, both front and back, were substituted, and copies of said photostats given to the Commissioner's representative.

That there were also offered and received in evidence in said proceedings [41] before the United States Board of Tax Appeals the notes of Chandis Securities Company held by the aforementioned individuals and exchanged in 1930 for its stock; and these notes, after having been identified and received, were, with the consent of Commissioner's counsel, withdrawn and photostatic copies substituted and copies of said photostats were given to the Commissioner's representative.

That there were also offered and received in evidence the original book entries of Chandis Securities Company relating to the issuance of stock for the notes; these original entries, after having been identified and received, were withdrawn and photostatic copies submitted to the Board, and copies thereof given to the Commissioner's counsel.

That within four months after rendering its opinion in the case of Marian Otis Chandler, et al., for the year 1929, and on October 3, 1935, the Board of Tax Appeals rendered an opinion in the case of Daniel H. Burnham v. Commissioner, 33 B. T. A. 147, to the effect that the issuance of stock for notes and accrued interest was a tax-free reorganization

within the meaning of Section 112 (b) (3) of the Revenue Act of 1928 and that the note holder did not derive taxable income when he received the stock. In the Burnham case the taxpayer, as affiant is informed and believes, was claiming a loss on account of the exchange and the Commissioner made the contention that the issuance of new stock for notes and accrued interest was merely a reorganization and therefore resulted in neither taxable gain nor deductible loss.

That an appeal from the Board's decision in the Burnham case was taken to the Circuit Court of Appeals for the Seventh Circuit, 86 Fed. (2d) 776, and that court affirmed the decision of the Board of Tax Appeals.

That a petition for a writ of certiorari was filed in the Burnham case, but was denied by the Supreme Court of the United States on April 5, 1937, 300 U. S. 683.

That the Commissioner of Internal Revenue in Cumulative Bulletin 1937-2, page 281, July to December Rulings, Ct. D. No. 1245, published his acquiescence in the decision in the Burnham case, and thereby accepted and adopted said decision as the correct interpretation and construction of the law.

That attached hereto, marked "Exhibit 7", is a true copy of the findings of fact and opinion of the United States Board of Tax Appeals in the case of Marian Otis Chandler, 16 B. T. A. 1248, which findings and opinion relate, in part, to the [42] "as-

served interest income" item mentioned in "Exhibit C" attached to the petition in this proceeding.

That the Commissioner of Internal Revenue, acting through his agents, has made an examination of the income tax returns of Chandis Securities Company for each of the years 1916 to 1930, inclusive, and the time for making additional assessments against Chandis Securities Company for any of these years has long since expired.

That during the year 1924 the Commissioner of Internal Revenue, through his agents, made an extended, exhaustive and studious examination and analysis of the records of Chandis Securities Company for the calendar years 1919 to 1923, inclusive, the result of such examination being recorded in a Revenue Agent's report dated December 9, 1924.

That during the year 1929 the Commissioner of Internal Revenue, through his agents, made an extended, exhaustive and studious examination and analysis of the records of Chandis Securities Company for the years 1924 to 1927, inclusive, the result of such examination being recorded in a Revenue Agent's report dated September 24, 1929; that a similar examination was made for the year 1928 and a Revenue Agent's report was likewise made, but affiant does not have the date of said report; that with respect to the years 1929 and 1930 Chandis Securities Company was advised by the internal revenue agent in charge thereof that its returns for said years would be recommended for acceptance by the Commissioner of Internal Revenue as



correct; and that no notice of any action contrary to such recommendation has ever been received by said Chandis Securities Company.

That at the time of the proceedings before the United States Board of Tax Appeals for and on behalf of Mrs. Marian Otis Chandler and the other taxpayers named, for the year 1929, all the records of Chandis Securities Company relating or in any way pertinent to the determination of the taxability of the "asserted interest income" item referred to in the affidavit of Warner E. Williams were exhibited to and examined by the Commissioner's representatives; that in addition thereto the petitioner has in his possession and/or there are available to him for examination the findings of fact established by the Board of Tax Appeals, the records and decisions of the Board of Tax Appeals and the transcript of record of the United States Circuit Court of Appeals for the Ninth Circuit in that certain proceeding entitled "Commissioner of Internal [43] Revenue, Petitioner, v. Marian Otis Chandler, Respondent, No. 8262."

That said records and data now in the possession of said petitioner or available to him constitute complete and true copies and/or explanations of all items of record of said Chandis Securities Company referring or relating to, or in any manner pertinent to the tax liability of Marian Otis Chandler for the year 1930 as hereinbefore more specifically described.

That all of the facts and figures which the records

of said Chandis Securities Company disclose and which are pertinent or relative to, or which may be used to determine, the income tax liability of Marian Otis Chandler for the year 1930 on account of the "asserted interest income" item referred to in the affidavit of Warner E. Williams attached to said petition as "Exhibit C", or "to determine whether said Marian Otis Chandler committed a fraud against the Revenue by failing to report upon the income tax return filed by her for the calendar year 1930" the "asserted interest income" referred to in said "Exhibit C", have already been disclosed and made available to the Commissioner of Internal Revenue, and affiant is informed and believes and on such information and belief states that such facts and figures are already in the possession of or available to the petitioner.

That the income tax return of Marian Otis Chandler for the year 1930 was filed with the Collector of Internal Revenue on or about the 15th day of March, 1931 and the tax thereon shown to be due was paid in the manner provided by law; that thereafter the Commissioner of Internal Revenue made an examination of said return and proposed additional taxes in the sum of \$603.68; that under date of January 28, 1933 said Marian Otis Chandler executed a waiver on Treasury Department Form 870 waiving her right to file a petition with the United States Board of Tax Appeals under section 274 (a) of the Revenue Act of 1926 and Section 272 (a) of the Revenue Act of 1928, and con-

sented to the assessment and collection of the said deficiency; that thereafter said additional taxes were duly paid; that affiant is informed and believes and therefore states that at no time has the Commissioner of Internal Revenue made any other assessment of additional tax for the year 1930; that at no time has Marian Otis Chandler, by waiver or otherwise, extended the time within which the Commissioner may make an additional assessment of tax; affiant further states upon information and belief that the Commissioner of Internal Revenue has not since [44] January 28, 1933 issued any letter of final determination proposing additional tax against Marian Otis Chandler for the year 1930, and that no appeal has ever been filed by Marian Otis Chandler with the United States Board of Tax Appeals for said year; that the time within which an assessment of additional tax may be made against Marian Otis Chandler for the year 1930, in the absence of fraud, has long since expired.

That prior to any action taken by Chandis Securities Company with respect to increasing its capital stock and issuing such stock for said notes and accrued interest, as hereinabove referred to, affiant consulted with income tax advisors, of recognized professional standing and ability, with respect to the said proposed transaction; that affiant was informed by said income tax advisors and believed that such transaction would be one in which neither gain nor loss would result either to Chandis Securities Company or the persons to whom said stock was



to be issued; that the income tax return of Marian Otis Chandler for the year 1930, which was prepared under the supervision of affiant, was full, true and correct and was made in good faith, and that the same was in no sense false or fraudulent with intent to evade tax.

Affiant is informed and believes and therefore states that Marian Otis Chandler is the only one of the taxpayers mentioned in the appeals to the United States Board of Tax Appeals hereinbefore referred to, relating to the year 1929, to whom the Commissioner of Internal Revenue has sent a letter indicating a desire to make a further examination for the year 1930.

That the Commissioner of Internal Revenue in his letter of final determination of the tax liability of Mrs. Marian Otis Chandler for the year 1929 did not charge her with fraud because of her failure to include in her income tax return for that year the "asserted interest income" item of \$661,369.56, which is the same item petitioner infers is taxable income for the year 1930; neither did the Commissioner before the Board of Tax Appeals in the aforementioned proceedings attempt to charge Mrs. Chandler with fraud because of her failure to report as taxable income the "asserted interest income" item of \$661,369.56; that attached hereto and marked "Exhibit 8" is a true copy of the Commissioner's letter of final determination dated July 1, 1932, sent to Marian Otis Chandler and relating to the year 1929, and [45] which letter formed the

basis of her appeal to the United States Board of Tax Appeals in her case above mentioned.

H. E. DOWNING.

Subscribed and sworn to before me this 19 day of March, 1940.

(Seal)

C. O. DENNING,  
Notary Public in and for  
said County and State.

[46]

---

“EXHIBIT 1”

Treasury Department  
Washington

Office of  
Commissioner of Internal Revenue

June 15, 1937

Address reply to  
Commissioner of Internal Revenue  
and refer to  
IT:F:FN

Chandis Securities Company,  
100 North Broadway,  
Los Angeles, California.

Dear Sirs:

While it is the policy of the Bureau to make as few inspections of books of account and records of taxpayers as possible, it is deemed necessary before finally closing your case to make a reinvestigation of your books and records for the years 1916 to

1930, inclusive, in order to properly verify your returns for those years. A reexamination therefore will be made.

I am sure you will permit our representatives to have access to all of your books and records and that you will cooperate fully with them. I trust this will not cause you any inconvenience.

This notice is sent in compliance with Section 1105 of the Revenue Act of 1926.

Very truly yours,

(signed) GUY T. HELVERING,  
Commissioner. [47]

---

“EXHIBIT 2”

Los Angeles, California

November 28, 1939

Commissioner of Internal Revenue,  
Washington, D. C.

In re: Chandis Securities Company

Years 1916 to 1930

Your File IF:F:FN

Dear Sir:

Your letter of June 15, 1937 was served upon the undersigned on or about November 10, 1939.

In this letter you state that “it is deemed necessary before finally closing your case to make a reinvestigation of your books and records for the years 1916 to 1930 inclusive.” Inasmuch as we have no knowledge of any pending case we do not know

what "case" you are referring to, hence, we are unable to understand the necessity for a reinvestigation. Particularly is this so since our returns for the years involved have long since been examined and found correct, except in a few instances where additional taxes or overassessments were found. These have long since been paid and the years closed. What necessity now exists for a reinvestigation of accounts beginning almost a quarter of a century back is impossible for us to comprehend. We believe it the intention of the statute and the Constitution to protect citizens against unreasonable searches or investigations. We are unable to conceive of a more unreasonable search than one going back so many years and covering such a long period of time.

It has always been the policy of the officers of this company to give the utmost consideration and cooperation to your examining agents and we hope to continue that policy, but, under the circumstances, we feel it our privilege to deny you the right to make such an examination. We, therefore, request that you withdraw your letter of June 15, 1937.

Very truly yours,

CHANDIS SECURITIES  
COMPANY

By H. E. DOWNING (Signed)  
Assistant Secretary H. E. D. [48]

## “EXHIBIT 3”

Form 860

Treasury Department

Internal Revenue Service

Rev. April, 1929

SUMMONS TO APPEAR, TO TESTIFY,  
AND TO PRODUCE BOOKS, ETC.

In the matter of the tax liability of CHANDIS  
SECURITIES COMPANY, District of 6th  
California, for the years 1916 to 1930, inclu-  
sive.

The Commissioner of Internal Revenue

To Chandis Securities Company

H. E. Downing, Assistant Secretary

Residing at Los Angeles, California

Greeting:

You are hereby summoned and required to ap-  
pear before the undersigned Internal Revenue  
Agent in Charge, at Room 1250, U. S. Post Office  
and Court House, Los Angeles, California, on the  
11th day of December, 1939, at 10 o'clock in the  
forenoon, to give testimony in the matter of the  
tax liability of the above-named person for the  
years designated, and directed to bring with you  
the following books and papers:

Records of Chandis Securities Company for the  
years 1916 to 1930, inclusive, as follows:

Minute books; capital stock certificate books,  
ledgers and journals; all accounting books and rec-  
ords including general ledgers, journals, cash books,  
auxiliary registers and ledgers, together with all

vouchers, correspondence and other written data supporting the original entries in said accounting books; all promissory notes of Chandis Securities Company issued, assigned, endorsed, or otherwise transferred during said years to Marian Otis Chandler, Franceska Chandler Kirkpatrick, May Chandler Goodan, [49] Helen Chandler, Philip Chandler, Ruth Chandler Williamson, Harrison Gray Chandler, Constance Chandler, and Norman Chandler which have been paid or otherwise cancelled.

Failure to comply with this summons will render you liable to proceedings in the district court of the United States for the district in which you reside, to compel your attendance, testimony, and production of books, etc.

Witness my hand this 30th day of November, 1939.

(signed) GEORGE E. MARTIN,  
Internal Revenue Agent in Charge. [50]

---

“EXHIBIT 4”

December 11, 1939.

Honorable George D. Martin,  
Internal Revenue Agent in Charge,  
Los Angeles, California

Dear Sir:

In the Matter of Chandis Securities Company  
Years 1916 to 1930, Inclusive.

Reference is made to your “Summons to Appear, to Testify and to Produce Books, etc.” in the mat-



ter of Chandis Securities Company for the years 1916 to 1930, inclusive, addressed to Chandis Securities Company, H. E. Downing, Assistant Secretary, dated November 30, 1939, requiring appearance on December 11, 1939 of said Assistant Secretary, and the production of numerous books, accounts, records, etc.

The records that you now wish to examine, many of which are probably lost or destroyed, have been examined many times by your agents, and the cases for the years involved have long since been closed. We believe the provisions of the statute and the Constitution protect us against unreasonable searches or investigations and we respectfully suggest that the proposed search and investigation is unreasonable, unnecessary and oppressive. If we are correct in this conclusion it would follow that we are privileged to resist the subpoena. For your consideration we submit the correctness of our position.

Assuring you of our desire at all times to cooperate with your agents in the examination of books and records, and also to comply with summons or subpoenas issued under legal authority, we are

Respectfully yours,

CHANDIS SECURITIES  
COMPANY

H. E. DOWNING (Signed)

Assistant Secretary [51]

## “EXHIBIT 5”

## STIPULATION

1. It is hereby stipulated and agreed by and between the parties hereto by their respective counsel that the above entitled appeals may be consolidated for hearing and decision. [61]

2. It is further stipulated and agreed by and between the above-named parties through their respective counsel, that the following facts may be taken as true, subject to the right, however, of either party to produce at the time of hearing further and additional evidence not in conflict therewith.

3. That Petitioners are residents of the City of Los Angeles, California and as such filed their income tax returns for the year 1929 with the Collector of Internal Revenue for the Sixth Collection District, State of California.

4. That the books of account of each Petitioner have at all times been kept upon the cash receipts and disbursements basis, and the income tax return of each of the Petitioners was prepared and filed on said basis.

5. That the Chandis Securities Co. was incorporated during the year 1916 with an authorized capital stock of \$500,000.00 divided into 500 shares of a par value of \$1000 per share.

6. That at the time of its organization or shortly thereafter the Chandis Securities Co., in exchange for properties acquired by it, issued its promissory notes aggregating in principal the total sum of

\$1,938,548.60. That, until the said notes were cancelled as hereinafter set forth, each of the Petitioners held and owned notes aggregating in principal the amount set opposite their respective names as follows:

	Note principal
Marian Otis Chandler.....	\$ 810,687.06
Franceska Chandler Kirkpatrick.....	179,490.04
	[52]
May Chandler Goodan.....	179,490.04
Helen Chandler .....	130,474.68
Philip Chandler .....	130,474.68
Ruth Chandler Williamson.....	130,474.69
Harrison Gray Chandler.....	130,474.68
Constance Chandler .....	130,474.70
Norman Chandler .....	116,508.03
Total.....	<u>\$1,938,548.60</u>
	[62]

7. That the interest that accrued on said notes to and including December 31, 1923 amounted to the sums set opposite the names of Petitioners as follows:

	Accrued interest to December 31, 1923
Marian Otis Chandler.....	\$ 294,950.76
Franceska Chandler Kirkpatrick.....	66,533.84
May Chandler Goodan.....	66,533.83
Helen Chandler .....	45,648.37
Philip Chandler .....	45,648.36
Ruth Chandler Williamson.....	45,648.36
Harrison Gray Chandler.....	45,648.36
Constance Chandler .....	45,648.37
Norman Chandler .....	45,789.36
Total.....	<u>\$ 702,049.61</u>

8. That on December 31, 1923 the Chandis Securities Co. issued new notes for the foregoing notes and accrued interest to the Petitioners as follows:

Marian Otis Chandler.....	\$1,105,637.82
Franceska Chandler Kirkpatrick.....	246,023.88
May Chandler Goodan.....	246,023.87
Helen Chandler .....	176,123.05
	[53]
Philip Chandler .....	176,123.04
Ruth Chandler Williamson.....	176,123.05
Harrison Gray Chandler.....	176,123.04
Norman Chandler .....	162,297.39
Total.....	<u><u>\$2,640,598.21</u></u>

9. That the amount of interest that accrued to Petitioners on their notes of the Chandis Securities Co. from January 1, 1924 to and including December 31, 1929, was as follows:

	Accrued Interest to Dec. 31, 1929
Marian Otis Chandler.....	\$ 366,418.80
Franceska Chandler Kirkpatrick.....	81,991.18
	[63]
May Chandler Goodan.....	81,991.18
Helen Chandler .....	58,218.25
Philip Chandler .....	58,218.26
Ruth Chandler Williamson.....	58,218.26
Harrison Chandler .....	58,218.26
Norman Chandler .....	53,516.22
Constance Chandler .....	58,218.26
Total.....	<u><u>\$ 875,008.67</u></u>

10. That attached hereto and marked Exhibit "A" is a true copy of the minutes of meeting of the Board of Directors of Chandis Securities Co.

held at 10:00 A. M. on Monday, the 14th day of October, 1929. Pursuant to the resolution contained in said minutes the Chandis Securities Co. on October 14, 1929 filed its certificate with the duly constituted authorities of the State of California increasing its capitalization in the manner authorized in said resolution. [54]

11. That attached hereto and marked Exhibit "B" is a true copy of the minutes of meeting of the Board of Directors of Chandis Securities Co. held at the hour of 10:00 A. M. on the 18th day of December 1929; that on December 20, 1929 Chandis Securities Co. filed an application with the Corporation Commissioner of the State of California, copy of which is attached hereto and marked Exhibit "C"; that attached hereto and marked Exhibit "D" is a copy of a permit issued by the Corporation Commissioner of the State of California pursuant to the said application of Chandis Securities Co., which permit is dated December 26, 1929; that attached hereto and marked Exhibit "E" is a copy of an application of the Chandis Securities Company to the Corporation Commissioner of the State of California; that pursuant to said application the Corporation Commissioner issued its permit dated May 7, 1930, copy of which [64] is attached hereto and marked Exhibit "F".

12. The following is a table showing the shareholdings of the new stock and consideration therefor: [55]

Name	Notes and Interest to Dec. 31, 1929	Shares in exchange for notes and interest	Cash for frac- tional share	Total	Issue of stock for stock	Total shares out- standing
Marian Otis Chandler .....	\$1,472,056.62	14,720	\$43.38	14,721	2,000	16,721
Franceska Chandler Kirkpatrick .....	328,015.06	3,280	84.94	3,281	350	3,631
Mary Chandler Goodan .....	328,015.05	3,280	84.95	3,281	350	3,631
Helen Chandler .....	234,341.30	2,343	58.70	2,344	350	2,694
Philip Chandler .....	234,341.30	2,343	58.70	2,344	350	2,694
Ruth Chandler Williamson .....	234,341.31	2,343	58.69	2,344	350	2,694
Harrison Gray Chandler .....	234,341.30	2,343	58.70	2,344	350	2,694
Constance Chandler .....	234,341.33	2,343	58.67	2,344	350	2,694
Norman Chandler .....	215,813.61	2,158	86.39	2,159	350	2,509
Harry Chandler .....					200	200
	\$3,515,606.88	35,153	593.12	35,162	5,000	40,162

A. CALDER MACKAY,  
Attorney for Petitioners

GEORGE M. THOMPSON,  
JOHN T. RILEY,  
Counsel for Petitioners.  
E. BARRETT PRETTYMAN,  
M. B. L.  
Attorney for Respondent. (65)



## “EXHIBIT 6”

United States Board of Tax Appeals

Docket No. 67468

MRS. MARIAN OTIS CHANDLER,  
Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,  
Respondent.

Docket No. 67469

RUTH CHANDLER WILLIAMSON,  
Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,  
Respondent.

Docket No. 67470

HARRISON GRAY CHANDLER,  
Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,  
Respondent.

Docket No. 67471

CONSTANCE CHANDLER,  
Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,  
Respondent.

Docket No. 67472

MAY CHANDLER GOODAN,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

Docket No. 67473

NORMAN CHANDLER,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

Docket No. 67474

DR. JOHN L. KIRKPATRICK,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

Docket No. 67475

HELEN CHANDLER,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

Docket No. 67476

PHILIP CHANDLER,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,  
Respondent. [92]

## OPINION

Van Fossan: These proceedings were brought to redetermine deficiencies in the income taxes of the petitioners for the year 1929 in the following amounts:

Petitioner	Docket No.	Deficiency
Marian Otis Chandler.....	67468	\$163,175.03
Ruth Chandler Williamson.....	67469	24,466.69
Harrison Gray Chandler.....	67470	17,915.53
Constance Chandler .....	67471	17,515.10
May Chandler Goodan.....	67472	29,620.90
Norman Chandler .....	67473	19,235.24
John L. Kirkpatrick.....	67474	28,721.39
Helen Chandler .....	67475	17,522.91
Philip Chandler .....	67476	17,587.26

Two issues are presented:

(1) Was the transaction by which petitioners exchanged certain notes and interest for stock consummated in 1929 or 1930? (42)

(2) Did the petitioners realize taxable income by reason of such exchange?

The facts were stipulated in part and in part adduced by testimony.

In 1916 Harry Chandler incorporated the Chandis Securities Co., hereinafter called the company,

with a capital stock of 500 shares of the par value of \$1,000 per share, for which stock he transferred to it certain real and personal property. He transferred 200 of such shares to his wife, Marian Otis Chandler, and 280 shares thereof to his children, all of whom are petitioners. Later he transferred other properties to the company for its promissory notes, which he assigned to his wife and children in approxi- [93] mately the same proportion as their stockholdings. The notes so assigned and interest accrued to December 31, 1923, were in the following amounts:

	Note principal	Accrued interest to Dec. 31, 1923.
Marian Otis Chandler.....	\$810,687.06	\$294,950.76
Franceska Chandler		
Kirkpatrick .....	179,490.04	66,533.84
May Chandler Goodan.....	179,490.04	66,533.83
Helen Chandler .....	130,474.68	45,648.37
Philip Chandler .....	130,474.68	45,648.36
Ruth Chandler Williamson.....	130,474.69	45,648.36
Harrison Gray Chandler.....	130,474.68	45,648.36
Constance Chandler .....	130,474.70	45,648.37
Norman Chandler .....	116,508.03	45,789.36
	<hr/>	<hr/>
Total.....	1,938,548.60	702,049.61

On December 31, 1923, the Chandis Securities Co. issued new notes for the foregoing notes and accrued interest to the petitioners, which notes and interest accrued to December 31, 1929, were as follows:

	Note principal	Accrued interest to Dec. 31, 1929
Marian Otis Chandler.....	\$1,105,637.82	\$366,418.80
Franceska Chandler Kirkpatrick .....	246,023.88	81,991.18
May Chandler Goodan.....	246,023.87	81,991.18
Helen Chandler .....	176,123.05	58,218.25
Philip Chandler .....	176,123.04	58,218.26
Ruth Chandler Williamson.....	176,123.05	58,218.26
Harrison Gray Chandler.....	176,123.04	58,218.26
Constance Chandler .....	176,123.07	58,218.26
Norman Chandler .....	162,297.39	53,516.22
<hr/>		<hr/>
Total.....	2,640,598.21	875,008.67

[94]

On October 14, 1929, the board of directors of the company passed a resolution increasing its capital stock from 500 shares of the par value \$1,000 per share to 50,000 shares of the par value of \$100 per share and, pursuant thereto, filed the certificate reciting such action, as required by the state statute. (43)

On December 18, 1929, the board of directors of the company passed a resolution authorizing the company's officers to apply to the Corporation Commissioner of the State of California for permission to sell or issue 40,000 shares of its capital stock at par to liquidate the indebtedness of the company to its stockholders represented by the above notes. The resolution contained the following recitals and provisions:

Whereas, Chandis Securities Company is indebted to the following named persons, to-wit:

Marian Otis Chandler  
Franceska C. Kirkpatrick  
May O. Goodan  
Helen Chandler  
Philip Chandler  
Ruth C. Williamson  
Harrison G. Chandler  
Constance Chandler  
Norman Chandler

in the aggregate principal sum of \$2,640,598.21 all of which is evidenced by several promissory notes of this company held by said persons, dated December 31st, 1933, due on or before the 31st day of December, 1928, which notes bear interest at the rate of 5% per annum, compounded annually, on which no part of said principal or accrued interest has been paid, and

Whereas, the aforesaid persons have expressed their willingness and have offered to accept stock in this corporation at full par value thereof in full or part payment of their respective notes together with interest thereon.

Now, Therefore, be it resolved that, subject to the approval of [95] the Commissioner of Corporations of the State of California, this corporation issue to any and/or all of the aforesaid persons in liquidation and payment of all or part of the indebtedness as aforesaid, together with interest thereon accrued to the time of the issuance, fully paid stock in this corporation at its par value for the amount of the indebtedness so liquidated and paid, and that this corporation take and receive from the



persons aforesaid a cancellation and satisfaction of said notes to the extent that stock may be so issued to the respective holders thereof.

And Be It Further Resolved, That the President and Secretary of this Corporation be and they are hereby, authorized and empowered to make application to the Commissioner of Corporations of the State of California, for a permit to sell and/or issue to and/or among the foregoing persons only, and one other, forty thousand shares of the capital stock of this corporation, at par, either

(a) For cash, lawful money of the U. S., and/or

(b) Such amount thereof as may be necessary to pay, liquidate and discharge not to exceed the amount of the indebtedness to said persons, hereinbefore referred to, for principal and/or interest accrued on said notes to the time when said stock may be issued.

On December 20, 1929, the company filed such application, which was granted on December 26, 1929. The permit contained the following provision:

1. To issue to any and all of the persons named in its application filed on the 20th day of December, 1929, an aggregate of not to exceed 35,156 shares of its (44) capital stock as consideration for the cancellation of the indebtedness of applicant to them, described in said application; \$100.00 of such indebtedness to be canceled upon the issuance of each of said shares.

By its terms the permit expired December 26, 1931.

A table showing the stockholdings of the taxpayers and consideration therefor was incorporated in the stipulation. [96]

On January 2, 1930, the petitioners surrendered their notes in exchange for the stock certificates issued by the company that day and the notes thereupon were canceled. The certificates were actually delivered in May 1930. The canceled notes each bear on the face a receipt signed by the respective former holder as follows: "January 2, 1930. The receipt of capital stock of Chandis Securities Company in full settlement of principal and accrued interest to December 31, 1929 is hereby acknowledged."

From 1924 to 1929 the company accrued interest on the above described notes at 5 percent per annum and deducted such interest on its income tax returns. The company kept its books and made its income tax returns on the accrual basis, while each petitioner kept his books and filed his returns on the cash receipts and disbursements basis. The individuals did not report any interest received in connection with the above notes.

The notes in question were in the custody of Horace Downing, secretary of the company, throughout the year 1929. The balance sheet of the company on December 31, 1929, lists the notes of the petitioners among its liabilities. The books of the company contain appropriate entries to show that the transactions were consummated in 1930. It was stipulated that the value of the stock of the

company was \$60 per share at any time material to these proceedings.

If it be decided that the transaction of exchange was consummated in 1930, such determination disposes of the cases. There would be no need to consider the second issue. On the facts found above we are of the opinion that petitioners' contention that the exchange was made in 1930 is well taken.

The record discloses that on December 18, 1929, the petitioners, as owners of the above described notes issued on December 31, 1923, expressed their willingness to exchange them for stock in the company in proportion to the respective amounts of such notes and unpaid interest thereon. The company thereupon proceeded to apply for permission to issue the additional [97] capital stock required to accomplish the exchange. Such a permit was a prerequisite to the contemplated exchange and an issuance without such permit would have been void. See section 12 of the Corporate Securities Act, California. On December 26, 1929, the commissioner of corporation issued his permit authorizing the company to issue to the taxpayers: (45)

An aggregate of not to exceed 35,156 shares of its capital stock as consideration for the cancellation of the indebtedness of applicant to them, described in said application; \$100.00 of such indebtedness to be cancelled upon the issuance of each of said shares.

The permit thus required that the exchange should involve simultaneous cancellation of the notes and

issue of stock—that the cancellation and issuance were to coincide in time. The company had no right to issue and hence, the petitioners had no right to acquire, the new stock until the notes were surrendered and canceled. The acts were mutually dependent and the transaction which is asserted to be the source of income could not have been completed without both acts.

The record discloses that the petitioners' notes were surrendered and canceled on January 2, 1930, and the stock certificates were issued on that day or later in that month, but as of January 2, 1930. They were delivered in May, 1930. In this situation we are of the opinion that the exchange took place in 1930 and that, therefore, the taxpayers could not have received any income from the exchange of their notes for stock before January 2, 1930. In support of this conclusion it appears that the company's books reflect the continued ownership of the notes by the petitioners through December 31, 1929, and the consummation of the exchange in 1930.

The conclusion reached above disposes of the cases and requires a finding for the petitioners. We need not inquire whether taxpayers received income in 1930 as a result of the exchange.

Reviewed by the Board. [98]

## EXHIBIT "7"

Docket No. 16259.

MARIAN OTIS CHANDLER,

Petitioner,

v.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

Promulgated June 29, 1929.

16 B. T. A., at P. 1248.

## FINDINGS OF FACT.

In 1916 the husband of this petitioner incorporated the Chandis Securities Co. and transferred to it real and personal property in exchange for all of its capital stock—500 shares. Soon thereafter Chandler transferred 200 shares of this stock to his wife and 280 shares to their children. From time to time thereafter Chandler transferred other properties to the company, taking the company's promissory notes in payment; these notes Chandler assigned to his wife and children in approximately the same proportions as their stock holdings. The notes bore interest at 5 per cent per annum, but no interest was paid prior to or during the taxable years, nor was any fund set aside for such interest payments. During the taxable years the amounts of annual interest accrued upon these notes were as follows:



Holders of notes	1920	1921	1922	1923
Mrs. Chandler				
(petitioner) .....	\$48,384.36	\$50,803.58	\$53,343.76	\$56,116.13
Children .....	60,003.67	63,002.93	66,153.56	69,463.15
	<hr/>	<hr/>	<hr/>	<hr/>
Total interest .....	108,388.03	113,806.51	119,497.32	125,579.28

During the taxable years, and the two years preceding, the Securities Company's books showed balances as follows:

Year	Net Income	Net loss
1918 .....	\$ 57,076.19	
1919 .....	40,305.89	
1920 .....	37,886.82	
1921 .....		\$18,109.18
1922 .....	105,549.04	
1923 .....		446,124.52

The petitioner was vice president and secretary, and her husband was president and treasurer of the company throughout the years in question. During none of the taxable years did the company have cash sufficient to pay the current interest on its notes held by the petitioner and her children. [99]

On December 31, 1923, there was credited to the petitioner and her children, on the journal of the Securities Company, the total amount of interest accrued upon the promissory notes of the company from 1917 to the close of 1923. Corresponding credits appear upon the ledger of the company in the separate "Notes Payable" account of this petitioner. The company, on December 31, 1923, executed renewal notes to the petitioner and her children. The new notes covered the principal of the old notes and all accumulated interest thereon.



The petitioner made her tax returns upon a cash receipts and disbursements basis. The company books were kept on the accrual basis, but did not accrue the interest upon petitioner's notes as it became due, year by year. In 1923 the company set up on its books the total amount of interest accumulated during the preceding six years.

The respondent asserts that petitioner received taxable income, through the constructive receipt of interest in the amounts above set forth, in each of the respective taxable years, and, adding these amounts to her reported gross income for those years, has determined deficiencies thereon as set forth above.

### OPINION

Marquette: The question presented here is one of possible constructive receipt of income. The petitioner held promissory notes of a company, bearing interest at 5 per cent per annum. No interest was paid during the taxable years, and the testimony shows that the company did not have sufficient surplus cash in any of the taxable years to pay the current interest upon its outstanding notes. The company did have assets which were acquired, in part, in exchange for its capital stock; in part for the promissory notes here involved; and in part by changes in the investments. That portion of the assets acquired by the company through cash purchases does not appear. The debtor company's stock was all owned by the petitioner, her children, and her husband. It is the respondent's contention that

the assets of the company were available, year by year, to pay the interest due to the petitioner; but that she, an officer [100] and large stockholder in the company, voluntarily gave up the interest for the time being in order that the company might reinvest its money and increase, or at least strengthen, the investments which it held. Therefore, the respondent concludes, the petitioner constructively received the interest due her and is taxable thereon. The petitioner kept her personal accounts and made her income-tax returns upon the cash receipts and disbursements basis.

Section 213 (a) of the Revenue Act of 1918 is identical in language with the same numbered section of the 1921 Act. So far as applicable here, the wording is as follows:

\* \* \* The term "gross income" (a) includes gains, profits, and income derived from \* \* \* interest, rent, dividends, securities \* \* \* The amount of all such items \* \* \* shall be included in the gross income for the taxable year in which received by the taxpayer, unless \* \* \* any such amounts are to be properly accounted for as of a different period.

Section 212 (b) of the Revenue Acts of 1918 and 1921, so far as here pertinent, reads:

The net income shall be computed upon the basis of the taxpayer's annual accounting period \* \* \* in accordance with the method of accounting regularly employed in keeping the books of the taxpayer.

The question whether one on a cash receipts and disbursements basis may receive income construc-

tively has been before the Federal courts. In *Mutual Benefit Life Insurance Co. v. Herold*, 198 Fed. 199, the court held that uncollected and deferred premiums, and interest due and accrued but not actually received, did not constitute income within the meaning of the taxing statute. We quote:

At the outset it may be remarked that a statute providing for the imposition of taxes is to be strictly construed, and all reasonable doubts in respect thereto resolved against the government and in favor of the citizen.

This doctrine is supported by *Spreckels Sugar Co. v. McClain*, 192 U. S. 397; *Benziger v. United States*, 192 U. S. 38; *American Net & [101] Twine Co. v. Worthington*, 141 U. S. 468. Quoting, again, from the *Herold* decision:

Since, then, the language of the Act is explicit in permitting only such deductions from gross income as were actually paid during the current year, it would be strange, indeed, if on the opposite side of the account the company were charged with what it had not received during the current year. \* \* \* the word "income" means that which has come in, not that which might have come in, but did not. If expenditures means what has been paid out, or outgoes, then income means what has come in, or receipts. \* \* \* It seems almost to border upon absurdity to speak of income as including that which has not been received, and, which in the ordinary uncertainties of business may never be received. \* \* \* They (interest and deferred premiums) are neither receipts or income until paid.

This Board has also considered the same question in numerous cases. In *John A. Brander*, 3 B. T. A. 231, we held that Brander had constructively received \$2,904.49 credited to him as salary by the corporation of which he was president, but not withdrawn by him. It appeared in that case that the company had ample surplus and cash with which to pay Brander, together with net earnings for the year in question sufficient to pay a dividend of 350 per cent on the outstanding capital stock.

In *Archer L. Kent*, 6 B. T. A. 614, a corporation declared a dividend, amounting to \$17,605.04 on Kent's stock. The parties stipulated that \$7,464.79 of this dividend was payable (in the taxable year) and was unqualifiedly subject to the taxpayer's demand on that date (the taxable year); and we held that Kent had constructively received such portion of the dividend although he did not receive the dividend check, mailed December 31, until January.

In both these cases the debtor company had on hand at the close of the year sufficient cash and surplus with which to pay the amounts due, and those amounts were unqualifiedly set apart and made subject to the taxpayer's demands; but, in the appeal now before us, in no one of the taxable [102] years do we find both these necessary elements occurring. In *Estate of Julius J. Nartzik*, 8 B. T. A. 685, the corporation of which he was president voted him a bonus, for services rendered, of \$25,000. This action was taken in 1920, but the amount was not credited upon the company's books, which were kept

on the accrual basis, until February, 1921, when the credit was made as of December 31, 1920. In disallowing the Commissioner's determination of constructive receipt of the money in 1920, we said:

Before it should be held that a taxpayer constructively received income in any taxable year when he did not, in fact, come into possession of the money or property, it should appear beyond question that the taxpayer, although at liberty, considering the financial requirements and needs of the corporation, to withdraw the amount due him, deliberately chose not to draw or receive the amount owing by the corporation. As was said by the Board in *John A. Brander*, 3 B. T. A. 231, "It was not that the corporation would not pay, but rather that he would not receive. This election to give the corporation the temporary use of the amount was an exercise by him of its enjoyment, and this is one of the primary attributes of income." The \$25,000 in question was not sufficiently available for the decedent's use to constitute a constructive receipt by him. The theory of constructive receipt of income should not be extended beyond the principle announced by the Board in *John A. Brander*, *supra*, and this proceeding is clearly not within the rule announced in that appeal. The fact that the decedent owned practically all of the stock of the corporation had nothing to do with the question whether he received income. The Commissioner argues that "the Board is wholly without informa-



tion as to the corporation's ability to borrow money or to pay it (the bonus) from other sources than its balances of cash held in banks." The mere fact that a creditor of the taxpayer might borrow sufficient money or sell some of the assets and realize sufficient cash to pay the taxpayer the amount due does not make the taxpayer in receipt of income on the cash basis. We are satisfied from the facts in this proceeding that the \$25,000 was not received by the petitioner within the calendar year 1920 within the meaning of the statute and was not, therefore, income for that year. [103]

In an early decision, *A. L. Englander*, 1 B. T. A. 760, we held that salary credited to an employee on the books of a corporation is not taxable income unless it is available for the use of such employee.

In *Edward J. White*, 13 B. T. A. 854, we held that an attorney's retainer fee, contracted for and apparently due and payable before 1920, but not actually paid until that year, was income in the year actually received. And to like effect are numerous other decisions of this Board.

In deciding this, or any other appeal, we must bear in mind that, as was said in *Storage & Transfer Co. v. Heiner*, 20 Fed. (2d) 921, "Taxes are not laid and collected on theory, but on a situation actually existing, as the facts may show that situation to be. Theory is applied in the absence of such facts. \* \* \* Facts, and not bookkeeping entries, give rise to taxable income. In *re Curtis*, 142 N. Y. 219; 36 N. E. 887; *Swift's Estate*, 137 N. Y. 77;



32 N. E. 1096; *Doyle v. Mitchell Bros. Co.*, 247 U. S. 179; *So. Pac. R. R. v. Muentner* (C. C. A.) 260 Fed. 837; *Baldwin Locomotive Works v. McCoach* (C. C. A.), 221 Fed. 59."

In the present proceeding, we are confronted by these facts: (1) In none of the taxable years did the debtor company have sufficient available cash to pay the current interest due to petitioner; (2) in only one of the taxable years was the petitioner credited upon the books of the company with the amount of interest due her; and in that year the company sustained a net loss of over \$440,000. From the facts of this appeal, and a careful consideration of the governing statutes and the decisions applying them to similar situations, our conclusion must be wholly counter to the determination of the respondent. The debtor company having no available cash with which to pay, and not having made the appropriation for the payment of the interest due this petitioner, it is difficult to see wherein the company's funds were so "unqualifiedly subject to the taxpayer's demand," as to bring this situation within the purview of a constructive receipt of income.

But the respondent argues that the company might have disposed of some of its assets, and thus have obtained the money to pay the petitioner's [104] interest. It is not for us to speculate or theorize upon what might have been, but was not, done. The petitioner was taxable upon her income; the interest which the respondent seeks to impress

with taxes was not received by her and was, therefore, no part of her actual income; the interest due her was never made unqualifiedly subject to her demand. The respondent erred in his determination of deficiencies, and they are disallowed. [105]

## EXHIBIT "8"

Treasury Department  
Washington

July 1, 1932.

Office of  
Commissioner of Internal Revenue  
Mrs. Marian Otis Chandler,  
c/o John T. Riley,  
505 Title Insurance Building,  
Los Angeles, California.

Madam:

You are advised that the determination of your tax liability for the year(s) 1929 discloses a deficiency of \$163,175.03, as shown in the statement attached.

In accordance with section 272 of the Revenue Act of 1928, notice is hereby given of the deficiency mentioned. Within sixty days (not counting Sunday as the sixtieth day) from the date of the mailing of this letter, you may petition the United States Board of Tax Appeals for a redetermination of your tax liability.

However, If You Do Not Desire to Petition, you are requested to execute the enclosed agreement form and forward it to the Commissioner of Inter-

nal Revenue, Washington, D. C., for the attention of IT:C:P-7. The signing of this agreement will expedite the closing of your return(s) by permitting an early assessment of any deficiency and preventing the accumulation of interest charges, since the interest period terminates thirty days after filing the enclosed agreement, or on the date assessment is made, whichever is earlier; Whereas If No Agreement Is Filed, interest will accumulate to the date of assessment of the deficiency.

Respectfully,

DAVID BURNET,

Commissioner.

By (Signed) J. C. WILMER,

Deputy Commissioner.

Enclosures:

Statement

Form 882

Form 870 [106]

## STATEMENT.

IT:AR:E-1

NF-60D

In re: Mrs. Marian Otis Chandler,  
c/o John T. Riley,  
505 Title Insurance Building,  
Los Angeles, California.  
Tax Liability.

Year—1929

Tax Liability—\$178,656.06.

Tax Assessed—\$15,481.03.

Deficiency—\$163,175.03.

The deficiency shown herein is based upon the revised report of Internal Revenue Agent Charles W. Donnally covering your tax liability for the year 1929.

Careful consideration has been accorded your protests dated December 17, 1931 and March 28, 1932, in connection with the findings of the examining officer, and the information submitted at a conference held in the office of the internal revenue agent in charge.

Your return has been adjusted as follows:

Net income reported on return.....\$119,493.11

Add:

1. Salary .....\$ 19,404.40

2. Error in computation..... .20

3. Interest income .. 661,369.56      680,774.16

Net income adjusted.....\$800,267.27

## Explanation of Changes.

1. It is held by this office that in applying the United States Supreme Court decision in the case of Robert K. Malcolm, all community income as defined by Income Tax Ruling 2457, Cumulative Bulletin VIII-1, page 89, must be divided equally between husband and wife where original separate income tax returns were filed. It is necessary, therefore, to include in your return one-half of the salary reported by your husband, which under the ruling referred to above represents community income. Your [107] income has accordingly been increased by one-half of \$38,808.80, or \$19,404.40. A corresponding decrease in income has been made in your husband's return, resulting in an overassessment of tax of which he will be advised in a subsequent communication from this Bureau.

2. Deduction listed on your return were overstated by \$0.20.

3. Interest on notes of the Chandis Securities Company for the years 1916 to 1929, inclusive, paid in stock of the company during 1929, has been included in taxable income.

Interest on these notes, which were originally issued for assets turned over to the company, ran at the rate of 5% compounded annually. The interest through the year 1923 was incorporated in notes, and for subsequent years was accrued in accounts of the corporation. None of the interest was paid prior to 1929, although the corporation, keeping its books and filing its returns on the accrual basis, de-



ducted for each year substantial amounts of interest on this indebtedness.

During the year 1929, arrangements were made whereby notes payable in a total amount of \$3,515,606.88, representing the principal of \$1,938,548.60 and accrued interest of \$1,577,058.28 were turned into the corporation and cancelled in exchange for corporate stock of the same par amount as the total of the principal and accrued interest.

It is contended by you that the relinquishment of the notes and interest debts for stock issued in proportion to the ownership in the notes and debts, after which action the former noteholders possessed more than 80% of the outstanding stock, resulted in a transfer of property to a corporation controlled by the transferors and was a nontaxable exchange under section 112 (b) (5) of the Revenue Act of 1928.

In this connection, it is held that "property" as contemplated by section 112 (b) (5) must be property within the meaning of the tax law generally. Such property must be either income or capital, and capital consists of original capital and capital derived through income.

From this viewpoint, it is believed that an analogy exists in the rulings pertaining to uncollectible interest claimed as a bad debt. In the decision of the United States Board of Tax Appeals in the case of Charles A. Collin, 1 Board of Tax Appeals, 305, it was held that a taxpayer who keeps his accounts on a cash [108] basis may not deduct from gross income as a bad debt an item of accrued interest



which he had not at any time previously treated as income or reported as taxable income.

There could be no loss of property unless the interest had been reported as income. Also, there could be no property transferable for stock until the interest debt claimed as property had been reported as income.

It is held by this office that the transaction in question resulted in a payment of the interest, and interest is an item of income. Section 22(a) of the Revenue Act of 1928.

#### COMPUTATION OF TAX.

Total net income adjusted.....	\$800,267.27
Less:	
Capital net gain included.....	290.00
Ordinary net income adjusted.....	\$799,977.27
Less:	
Dividends .....	110,679.46
Net income subject to normal tax.....	\$689,297.81
Normal tax at $\frac{1}{2}\%$ on \$4,000.00.....	20.00
Normal tax at 2% on \$4,000.00.....	80.00
Normal tax at 4% on \$681,297.81.....	27,251.91
Surtax on \$799,977.27.....	151,655.45
Tax at $12\frac{1}{2}\%$ on \$290.00.....	36.25
Total .....	179,043.61
Less:	
Earned income credit.....	\$210.36
Tax paid at source.....	177.19
Total amount assessable.....	\$178,656.06
Tax previously assessed.....	15,481.03
Deficiency in tax.....	\$163,175.03

COMPUTATION OF EARNED  
INCOME CREDIT.

Earned net income.....	\$ 20,460.40
Normal tax at $\frac{1}{2}\%$ on \$4,000.00.....	20.00
Normal tax at 2% on \$4,000.00.....	80.00
Normal tax at 4% on \$12,460.40.....	498.42
Surtax on \$20,460.40.....	243.02
<hr/>	
Total tax .....	841.44
Credit of 25%.....	210.36

Consent, which will expire December 31, 1932, except as extended by the provisions of section 277 of the Revenue Act of 1928, is on file.

[110]

Receipt of a copy of the within is hereby admitted this 19th day of March 1940

EUGENE HARPOLE

Special Attorney

Bureau of Internal Revenue

Attorney for Petitioner

[Endorsed]: Filed Mar. 19, 1940. [129]

[Title of District Court and Cause.]

AFFIDAVIT

State of California

County of Los Angeles—ss.

Charles W. Donnally, being first duly sworn, deposes and says:

That he is employed as an Internal Revenue Agent by the Bureau of Internal Revenue, assigned

to duty at Los Angeles, California, and has been so employed since the year 1920.

That on or about September 15, 1931, in the course of his official duty, he made an investigation of the income tax liability for the calendar year 1929 of Marian Otis Chandler, and in the course of said investigation on or about said date, he went to 2330 Hillhurst Drive, Los Angeles, the address of Marian Otis Chandler given on her 1929 income tax return and demanded to see her with regard to her said return, and that he was informed that H. E. Downing was her representative with regard to her income tax returns [131] and instructed to go see Mr. Downing and told that Mr. Downing would furnish whatever information he desired; that thereafter he went to see Mr. Downing and advised Mr. Downing that he wished to make an examination of the income tax liability for the calendar year 1929 of Marian Otis Chandler and that Mr. Downing stated to him that he had charge, for Mrs. Chandler, of matters pertaining to her income tax return and that he would answer any questions that Mr. Donnelly had with regard to her 1929 return. Affiant then requested from Mr. Downing that he produce all the books and records and documents pertaining to an exchange by Mrs. Marian Otis Chandler and other members of the Chandler family of notes of the Chandis Securities Company for stock of said company. Among other documents, affiant requested of Mr. Downing the notes, which were supposed to have been cancelled in exchange for stock. Mr.

Downing told affiant that the notes had been in his possession for a long period prior to December 31, 1929; that the notes had been cancelled in 1929 and that all legal steps had been taken for the issuance of the stock of the Chandis Securities Company prior to the close of 1929, but that the mechanical operation of issuing the certificates was delayed as the new certificates had not been received from the printer.

Affiant further states that on several visits to the office of the Chandis Securities Company for the purpose of examining the 1929 income tax return of Marian Otis Chandler he repeatedly requested from Mr. Downing that said notes be produced and was repeatedly told by Mr. Downing that the notes had been misplaced [132] and that Mr. Downing was unable to produce them, but was repeatedly assured by Mr. Downing that the notes were cancelled in 1929 and that if they were found they would so indicate on their face. Mr. Downing stated that a former bookkeeper, who was ill with tuberculosis, and who had been away from the office for a long time and was not expected back for months, if ever, was responsible for misplacing the notes, and that said bookkeeper had taken care of the mechanical work in connection with the records and due to his illness the work of bringing the records up to date had been delayed.

Affiant further states that he relied absolutely upon the statements of Mr. Downing that the notes has been misplaced and were not available, and that

the notes had been cancelled in 1929 and would so indicate on their face if found, in preparing his recommendation to his superiors that the exchange of the notes for the stock was taxable in 1929.

CHARLES W. DONNALLY

Subscribed and sworn to before me this 5 day of April, 1940.

[Seal]

T. G. ALBRIGHT

Notary Public in and for the County of Los Angeles, State of California.

My Commission Expires October 22, 1940. [133]

---

[Title of District Court and Cause.]

AFFIDAVIT

State of California

County of Los Angeles—ss.

Warner E. Williams, being first duly sworn, deposes and says:

1. That he refers to and incorporates by reference the affidavit he executed on March 4, 1940, on file as Exhibit "C" to the Petition for Production of Records in this Proceeding.

2. That the reasons that it is necessary that representatives of the Bureau of Internal Revenue examine the books and records of the Chandis Securities Company for the years 1916 to 1930, inclusive, and question said H. E. Downing in order to determine whether Marian Otis Chandler committed a fraud against the Revenue by failing to



report in the income tax return filed by her for the calendar year 1930 a large sum of asserted interest income received by her from the said Chandis Securities Company [134] in the year 1930 are as follows:

(a) There were exchanged in the year 1930, by Mrs. Marian Otis Chandler, certain notes and alleged interest thereon for stock in the Chandis Securities Company. Said notes consisted of interest and of principal. The original notes, of which the notes exchanged in 1930 were in part renewals, were issued in 1916, or shortly thereafter. Without an examination of the books and records of the Chandis Securities Company from 1916 to 1930, inclusive, it is impossible to determine how much of the face amounts of the notes actually represents interest and how much principal, and hence impossible to determine how much interest Marian Otis Chandler should have reported in her income tax return for 1930.

(b) In order to determine the amount of interest income received by Marion Otis Chandler in 1930, it is necessary to determine the value of the stock which she received in that year as interest income in exchange for the notes and accrued interest thereon. In order to determine the value of said stock, it is necessary to determine when the assets of the corporation behind the stock were acquired, the manner in which they were acquired, and from whom they were acquired. These facts can be determined only by an examination of the



books and records of the Chandis Securities Company from 1916 to 1930.

3. Attached hereto, as Exhibit 1, is a true and correct copy of a letter dated November 25, 1931, sent by the office of the Internal Revenue Agent in Charge to Mrs. Marian Otis Chandler. [135]

4. Attached hereto, as Exhibit 2, is a true and correct copy of a Protest dated December 17, 1931, and filed on said date with the office of the Internal Revenue Agent in Charge, Los Angeles, signed by Marian Otis Chandler.

5. Attached hereto, as Exhibit 3, is a true and correct copy of a letter dated March 28, 1932, addressed to the Internal Revenue Agent in Charge, Los Angeles, and supplementing the Protest dated December 17, 1931 (Exhibit 2 hereto), filed by George M. Thompson and Associates by John T. Riley.

6. Attached hereto, as Exhibit 4, is a true and correct copy of a letter dated April 4, 1932, addressed to Mrs. Marian Otis Chandler.

7. Attached hereto, as Exhibit 5, is a memorandum received by the Special Advisory Committee of the Bureau of Internal Revenue on April 27, 1933, from George M. Thompson, Certified Public Accountant, Suite 505 Title Insurance Building, Los Angeles, California, Marian Otis Chandler's representative before the Bureau of Internal Revenue.

8. Attached hereto, as Exhibit 6, is a true and correct photostatic copy of the income tax return

filed for the calendar year 1929 by Marian Otis Chandler.

9. Attached hereto, as Exhibit 7, is a true and correct photostatic copy of the income tax return filed for the calendar year 1930 by Marian Otis Chandler.

10. Attached hereto, as Exhibit 8, is a true and correct photostatic copy of a Waiver of Right to File a Petition with the United States Board of Tax Appeals signed by Marian Otis [136] Chandler, dated January 28, 1933 and filed with the Internal Revenue Agent in Charge, Los Angeles, January 31, 1933.

11. Attached hereto, as Exhibit 9, is a true and correct photostatic copy of the corporation income tax return filed by the Chandis Securities Company for the calendar year 1923.

WARNER E. WILLIAMS

Subscribed and sworn to before me this 6 day of April, 1940.

T. G. ALBRIGHT

Notary Public in and for the County of Los Angeles, State of California.

ST/mm 4/5/40 [137]

## EXHIBIT 1

IT:R

Form 850—Rev. Sept., 1931

Treasury Department  
Internal Revenue Service  
939 South Broadway  
Los Angeles, Calif.

Office of Internal Revenue Agent  
in Charge

In re: Income Tax  
Date of Report: Nov 25 1931

## Recommendation:

Years—1929

Additional Tax—\$21,269.68

Overassessment—

Penalties—

Total—

Mrs. Marian Otis Chandler,  
2330 Hillhurst Drive,  
Los Angeles, California.

Madam:

The recommendations which this office proposes to make with respect to your income tax liability as the result of a recent examination by an internal revenue agent are shown in the statement attached.

If you acquiesce in the proposed tax liability the inclosed Form 870 should be executed and forwarded to this office. Your consent on Form 870 to the

prompt assessment of any deficiency indicated will stop the running of interest to be assessed on such deficiency under the provisions of section 283(d) of the Revenue Act of 1926 or section 292 of the Revenue Act of 1928, upon a date not later than thirty days after the filing of Form 870 properly executed. Unless such consent is filed the interest to be assessed under the law upon any deficiency indicated runs to the date the deficiency is assessed and the assessment may be made only as provided by section 274(a) of the Revenue Act of 1926 and/or section 272(a) of the Revenue Act of 1928.

Should you desire to make immediate payment without awaiting formal assessment and notice and demand, you should communicate with the collector of internal revenue at Los Angeles, California, inclosing this letter, or a copy thereof. If payment is so made the interest period will terminate on the date of payment.

If you do not acquiesce in the proposed recommendations you should file a protest in writing with this office within 15 days from the date of this letter. Any protest so filed will be given careful consideration, and, if you so desire, you will be given an opportunity for a [138] hearing before the recommendations are forwarded to Washington.

Arrangements will be made by this office upon your request to answer any questions which may occur to you in your review of these recommendations.

In any event please sign the inclosed form

acknowledging receipt of this letter and related papers and return such form to this office.

Respectfully,

Internal Revenue Agent in Charge.

Inclosures:

Statement of adjustments

Form 870.

Form of acknowledgment.

McM [139]

Form 886-T-August, 1928

Treasury Department

Examining Officer:

Internal Revenue Service

Chas. W. Donnally

Name Mrs. Marian Otis Chandler,

2330 Hillhurst Drive,

Los Angeles, Calif.

## STATEMENT OF TOTAL TAX LIABILITY

Year—1929

Tax Previously Assessed—\$15,481.03

Adjustments Proposed in Accompanying Report

Deficiency—\$21,269.68

Overassessment

Correct Tax Liability—\$36,750.71

Totals

### Note

The amount shown in the first column of the above statement is the amount assessed on the original return except as indicated in the following summary of adjustments previously made; [140]

\* \* \* \* \*

## Table of Contents

Preliminary Statement

Schedule 1—Block Adjustments,

Schedule 2—Computation of Tax

Schedule 3—Earned Income Credit

## Preliminary Statement

Taxpayer's husband, Harry Chandler, filed separate return and claimed full exemption.

Deficiency in tax due to the addition of \$70,097.32 accrued interest due taxpayer from the Chandis Securities Company, which was paid by the issuance of stock of the debtor corporation. Also, the sum of \$19,404.40, representing 50% of the salary of taxpayer and her husband, was transferred from the husband's gross income to that of taxpayer. Interest from tax-free bonds was transferred from regular interest block to item 4 of the return.

Changes were taken up with Mr. H. E. Downing, taxpayer's representative, who does not agree to the adjustment of interest from the Chandis Securities Company. All other items have Mr. Downing's approval. [141]



## Schedule 1

## BLOCK ADJUSTMENTS

	Return	Additions	Deductions	Corrected
1. 25% depreciation	1,056.00	19,404.40		20,460.40
3. Interest .....	7,228.45	70,097.32	520.00	76,805.77
4. Interest, tax-free	8,339.45	520.00		8,859.45
7. Rents .....	1,689.34			1,689.34
8. Profits .....	1,342.87			1,342.87
9. Dividends .....	110,679.46			110,679.46
12. Total .....	130,335.57	89,501.72		219,837.29
13. Interest .....	5,379.87			5,379.87
14. Taxes .....	2,810.39			2,810.39
17. Contributions .....	2,942.00			2,942.00
			.20 error in addition	
19. Total .....	11,132.46			11,132.26
20. Net income .....	119,203.11	89,501.92		208,705.03
Capital net gain.....	290.00			290.00
Total income.....	119,493.11	89,501.92		208,995.03

## Schedule 1-A

## Explanation of Items

## Item 1

The income reported by taxpayer under "Salary" represents depreciation on a house in which she lives and which is owned by the Chandis Securities Company. The charge is one made in prior examination to which taxpayer agreed and since, the item has been included when filing returns. The addition of \$19,404.40 is one-half of the salary earned by herself and husband, Harry Chandler, the latter having reported his own salary and that of his wife. A like sum has been deducted from the income reported by husband. [142]

## Item 3

The addition of \$70,097.32 is accrued interest on an indebtedness due taxpayer from the Chandis Securities Company. The indebtedness was discharged in 1929 by the issuance of the capital stock of the company. The deduction of \$520.00 is on tax-free bond interest paid by Hollywood Hospital Company in the sum of \$325.00 and by Jackson Furniture Company in the sum of \$195.00. All interest items have been checked and found to agree with the information reports with the exception as noted above. The information reports show tax-free interest from the Globe Grain Company in the sum of \$240.00 and the Central Manufacturing Company in the sum of \$390.00. These two items belong to Philip and Helen Chandler, her children, who have included the amounts in gross income when filing their 1929 returns.

All other items have been checked and found to agree with records and information returns filed with the exception of the dividends from the Times Mirror Company. The information report shows \$98,838.00 whereas taxpayer reports but \$93,138.00, a difference of \$5,700.00. Helen Chandler reported \$2,850.00 and Philip Chandler \$2,850.00, covering their ownership in the stock held in their mother's name. This division is correct.

## Schedule 2

Year ended 12/31/29

## COMPUTATION OF TAX

Net income (from Schedule 1).....		208,995.03
Less: Capital net gain.....	290.00	290.00
		<hr/>
Income subject to surtax.....		208,705.03
Less: Dividends .....	110,679.46	110,679.46
		<hr/>
Balance subject to normal tax.....		98,025.57
		[143]
Normal tax at $\frac{1}{2}\%$ on \$4,000.00.....	20.00	
Normal tax at 2% on \$4,000.00.....	80.00	
Normal tax at 4% on \$90,025.57.....	3,601.02	
Surtax on \$208,705.03.....	33,401.01	
Tax at $12\frac{1}{2}\%$ on capital net gain of \$290.00 .....	36.25	
		<hr/>
Total tax .....		37,138.28
Less: Credit for earned net income (Schedule 3) .....	210.38	
Income tax paid at source.....	177.19	
		<hr/>
		387.57
		<hr/>
Total tax assessable.....		26,750.71
Tax previously assessed.....		15,481.03
		<hr/>
Additional tax to be assessed.....		21,269.68

Schedule 3  
Year ended 12/31/29

COMPUTATION OF EARNED INCOME CREDIT

Earned net income.....	20,460.40
Less personal exemption and credit for dependents—claimed by husband.....	—
Balance .....	20,460.40
Normal tax at $\frac{1}{2}\%$ on \$4,000.00.....	20.00
Normal tax at 2% on \$4,000.00.....	80.00
Normal tax at 4% on \$12,460.40.....	498.42
Surtax on \$20,460.40—.....	243.02
Total tax .....	841.44
Credit of 25%.....	210.38
	[144]

EXHIBIT 2  
PROTEST

Internal Revenue Agent in Charge,  
939 South Broadway,  
Los Angeles, California.

In re: Marian Otis Chandler,  
2330 Hillhurst Drive,  
Los Angeles, California.

The above named taxpayer hereby protests to the determination of income as set forth in letter of the Internal Revenue Agent in Charge dated November 25, 1931, and as a basis of this Protest alleges as follows:

- (1) Taxpayer is an individual.
- (2) The year involved is the calendar year 1929 and the amount of tax in dispute is \$21,269.68.
- (3) An itemized schedule of the findings to

which the taxpayer takes exception is as follows:

(a) The Internal Revenue Agent has erroneously increased net income by the sum of \$70,097.32.

(4) The facts upon which the taxpayer relies in support of her contentions are as follows:

(a) The taxpayer is a stockholder in the Chandis Securities Company and during the calendar year 1929 and prior thereto was the payee under certain promissory notes signed by the Chandis Securities Company.

(1) During the calendar year 1929, the Chandis Securities Company in connection with a reorganization, acquired from this taxpayer the notes of the said Company held by the taxpayer.

(2) At the time the notes were acquired, interest had accrued in the sum of \$70,097.32. The Internal Revenue Agent has [145] erroneously included this sum as income which was not paid to the taxpayer and was not credited to her account or unqualifiedly subject to her demand. It is the contention of the taxpayer that the transaction whereby the taxpayer transferred notes to the Chandis Securities Company for its stock represents an exempt exchange in connection with a reorganization.

If the above contention is not accepted, then an

oral conference to be held in Los Angeles is respectfully requested.

This Protest is not being made for the purpose of delay but only for the reasons hereinbefore set forth.

(Signed) MARIAN OTIS CHANDLER

State of California

County of Los Angeles

Marian Otis Chandler being duly sworn says that she is the taxpayer herein-before named, and that she is duly authorized to verify the foregoing protest; that she has read the foregoing protest or had the same read to her and is familiar with the statements contained therein and that the facts stated are true.

(Signed) MARIAN OTIS CHANDLER

Subscribed and sworn to before me this 17th day of December, 1931.

(Signed) C. O. DENNING

Notary Public In and for the County of Los Angeles, State of California.

I hereby certify that the foregoing Protest was prepared under my supervision upon facts furnished by the taxpayer, which facts I believe to be correct.

(Signed) JOHN T. RILEY [146]



## EXHIBIT 3

George M. Thompson, C.P.A.      John T. Riley  
R. E. Davis, C.P.A.              Marshall D. Hall, C.P.A.  
Geo. Vacher, C.P.A.              —  
W. J. Scott, C.P.A.              Attorneys at Law  
Sam Barnett, C.P.A.  
Wm. N. Simpkins

George M. Thompson  
Certified Public Accountant  
and Associates

Specializing in Income and Estate Tax Practice  
Suite 505 Title Insurance Bldg.

433 South Spring Street

Telephone Trinity 3478

Los Angeles, California

Revenue Agent in Charge

Received

Mar

31

1932

Los Angeles Division

March 28, 1932.

Internal Revenue Agent in Charge,  
939 South Broadway,  
Los Angeles, California.

In re: Marian Otis Chandler and Related Cases  
Dear Sir:

Supplementing Protest dated December 17, 1931,  
taking exception to the proposed assessment of ad-  
ditional income taxes to the above taxpayer for the

year 1929, the following contention, in addition to that stated in the Protest, is hereby submitted.

(a) The Internal Revenue Agent has erroneously determined that the taxpayer realized a gain in an exchange of notes for stock in a corporation contrary to the provisions of Section 112 (b) (5) of the Revenue Act of 1928.

The facts are that the taxpayer and her children on December 31, 1929, were the owners of notes executed by the Chandis Securities Company that had a face value together with accrued interest aggregating \$3,515,606.88.

The taxpayer and her children exchanged the said notes for 35,153 shares of stock of the Chandis Securities Company. Immediately after the exchange, the Chandis Securities Company had issued and outstanding an aggregate of 40,162 shares.

It is, therefore, contended that the taxpayer and her children immediately after the exchange were in control of the corporation and that the transaction is clearly within the meaning of Section 112 (b) [147] (5) of the Revenue Act of 1928. See G. C. M. 4196, C. B. Dec., 1928 page 241.

Respectfully yours,

GEORGE M. THOMPSON

AND ASSOCIATES,

By (Signed) JOHN T. RILEY

JTR:EWR [148]

## EXHIBIT 4

IT:FC

939 South Broadway,  
April 4, 1932.

Mrs. Marian Otis Chandler,  
c/o John T. Riley,  
505 Title Insurance Building,  
Los Angeles, California.

Madam:

Reference is again made to your income tax liability for the year 1929 as stated in a Revenue Agent's report and to your protests against the findings.

Careful consideration has been given to your contentions in conference with the result that the conferee has modified the findings of the Revenue Agent's report and this office has reached a decision on the issue raised, as follows:

The stock of the Chandis Securities Company received in liquidation of the interest due on the notes of the company for the years 1916 to 1929, inclusive, should be treated as income in the year 1929 to the extent of the value of the stock at the date of acquisition. I. T. 2258 V-1 C. B. 10. Since no evidence has been submitted to the contrary, the value is regarded as equivalent to the total amount of the interest.

The transaction can not be construed otherwise than resulting in a payment of the interest and interest is an item of income. Section 22 (a) Revenue Act of 1928. The amount of de-

iciency set forth in the accompanying schedule is in lieu of, and not in addition to, the deficiencies for prior years computed on the theory of constructive receipt of the annual interest.

[149]

Consideration has been given to the seeming unfairness of proposing a deficiency for the taxable year while deficiencies for prior years based on the same items were still pending, but it is only by so doing that the matter could be placed in position for a complete settlement of the interest question which, it is understood, the taxpayer's representative will initiate with the Bureau at Washington at an early date.

There is enclosed a recomputation of tax liability in accordance with the above decision.

Your protests and the Revenue Agent's report, accompanied by the foregoing recommendation, have been forwarded to the Commissioner of Internal Revenue, Washington, D. C. for consideration and appropriate action.

Respectfully,

FHG/Mc

(Signed) C. R. KRIGBAUM

Enclosure :

C. R. KRIGBAUM,

Internal Revenue Agent in Charge

Recomputation

of tax liability [150]

Conferee's Revision  
Statement of Total Tax Liability

Year—1929

Previously Assessed—\$15,481.03

Deficiency—\$163,175.01

Total Tax Liability—\$178,656.04

Net income per Revenue Agent's report of November 25, 1931.....		\$208,995.03
Add: Interest received from Chandis Securities Company .....	\$661,369.56	
Less: Amount included in agent's report .....	70,097.32	591,272.24
Net income .....		\$800,267.27
Less: Capital net gain.....	\$ 290.00	
Dividends .....	110,679.46	110,969.46
Income subject to normal tax.....		\$689,297.81
Normal tax at $\frac{1}{2}\%$ on \$4,000.00.....	20.00	
Normal tax at 2% on \$4,000.00.....	80.00	
Normal tax at 4% on \$681,297.81.....	27,251.91	
Surtax on \$799,977.27.....	151,655.45	
Tax at $12\frac{1}{2}\%$ on capital net gain of \$290.00.....	36.25	
Total .....		\$179,043.61
Less: Credit for earned net income (no change).....	\$210.38	
Income tax paid at source .....	177.19	387.57
Tax liability .....		\$178,656.04
Previously assessed .....		15,481.03
Deficiency .....		\$163,175.01

EXHIBIT 5

Marian Otis Chandler, Docket No. 67466  
Memorandum in Reply to Contentions in  
Sixty-Day Letter

George M. Thompson  
Certified Public Accountant  
Suite 505 Title Insurance Bldg.  
Los Angeles, California [152]

It is our contention that the transaction by which Marian Otis Chandler, et al, acquired stock of the Chandis Securities Company in exchange for notes of that company plus accrued interest thereon and old stock of the Chandis Securities Company was a non-taxable exchange under Section 112 (b) (5) of the Revenue Act of 1928 or Section 112 (b) (3) of that Act.

The sixty-day letter takes the position that in order to come within Section 112 (b) (5), we must exchange property of a kind which is within the meaning of the tax law generally, and attempts to define what is property. To quote from the sixty-day letter:

“Such property must be either income or capital, and capital consists of original capital and capital derived through income.”

We contend very forcibly that accrued interest is property within the meaning of the tax law generally and that the position taken by the Bureau is entirely without foundation, and is not supported by any decisions or by the law itself, and fail to see by



what stretch of the imagination it could be otherwise construed. We cite the case of *Anna Taylor*, Docket No. 7042, 3 B. T. A. 1201, in which the Board says

“The term ‘property’ has frequently been held by the courts to include every interest one may have in any and everything that is the subject of ownership. *Frerer v. People*, 141 Ill. 171; 31 N. E. 395; *Watson v. City of Boston*, 209 Mass. 18; 95 N. E. 302.” [153]

In its decision in the above case, the Board discussed the case of *Lynch v. Alworth-Stephens Co.*, 267 U. S. 364; 45 Sup. Ct. 274, and said:

“In the disposition of that case, the court said that there was nothing to suggest that the word ‘property,’ from which the deduction on account of exhaustion was permitted, is used in any restricted sense. \* \* \* There is nothing to suggest the term ‘property, real, personal or mixed’ as found in Section 202 of the Revenue Act of 1921, should be given a more limited meaning than the term ‘property’ for the purpose of exhaustion, contained in Section 12 (a) (2) of the Revenue Act of 1916. The taxpayer had the right to receive royalties on oil recovered. She could not have enforced and protected that right. She could not have been deprived of it without due process of law.”

In the instant case, the taxpayer had a right to receive interest. This right was enforceable and she could have protected that right.

In the case of *J. S. F. Crayton v. Commissioner of Internal Revenue*, 11 B. T. A. 1375, the Board in its opinion quoted from the case of *Martin & Earle v. Maxwell*, 86 S. C. 67; 1 S. E. 962, as follows:

“It is true, as has been often said, that a contingent remainder is not technically an estate but a mere possibility of an estate in the future; but that is very far from saying that it is not property. The term ‘property’ used in the bankruptcy act, is of the broadest possible signification, embracing everything that has exchangeable value, or goes to make up a man’s wealth—every interest or estate which the law regards of sufficient value for judicial recognition.” Citing several cases. [154]

The Board then said:

“Restriction of the meaning and scope of the term ‘property’ as used in the taxing statutes may not be imputed. *Lynch v. Alworth-Stephens Co.*, 267 U. S. 364. See also *Anna Taylor*, 3 B. T. A., 1201, and other cases there cited.

The reasonable and practicable interpretation of the statute is that it includes all forms of and interest in property whatsoever.”

Certainly, under those decisions, the item of accrued interest on notes receivable which the taxpayer transferred to the Chandis Securities Com-

pany in exchange for stock was "property" within the meaning of the Revenue Act.

Insofar as the contention of the Bureau is concerned that property must be either income or capital, we assume the Bureau refers to the fact that the accrued interest has never been reported as income, but the Revenue Act of 1928 takes care of such transactions in Section 113 (6), which provides that the stockholder in an exempt reorganization must use as a basis for the determination of profit or loss of such stock in a subsequent sale, the cost basis of the property exchanged for such stock.

The sixty-day letter tries to create an analogy between the particular issue and the rulings pertaining to uncollectible interest claimed as a bad debt. We contend that there is no analogy whatsoever; that the conditions are entirely different. In the case cited by the Bureau, the taxpayer attempted to take as a deduction from his income, a bad debt represented by an item of accrued interest which had never been reported as taxable income. Certainly, in that case, the taxpayer was not entitled to deduct such an amount as a loss and we fail to [155] see where the reasoning in that particular case has any connection whatsoever with the point at issue. We have no fault to find with the argument that there can be no loss deductible unless the interest had been reported as income, BUT THIS TAXPAYER IS NOT ATTEMPTING TO TAKE A LOSS. Should the taxpayer attempt to take a loss upon the subsequent sale of this stock

received in exchange for the notes and accrued interest and base this loss not only upon the amount invested in the notes but also include as a loss the accrued interest thereon, which has not been reported as income subject to tax, we thoroughly agree that he would not be entitled to take any loss represented by the accrued interest, but that is a condition that does not confront us at the present time and will arise only in the event of a sale of the stock received in the exchange.

It is respectfully submitted that the arguments and cases cited by the Bureau in the sixty-day letter are not at all in point and this taxpayer should not be compelled to go to trial on issues which are so clear as not to require any further discussion.

[Endorsed]: Received Apr. 27, 1933. Special Advisory Committee. [156]









Notes	Total	2 % at Source	Interest Received	
			Wholly Exempt	Wholly Taxable
Kern County Road Improvement.....	480.00		480.00	
L. A. County Sanitation District.....	275.00		275.00	
L. A. Traction Co.....	250.00			250.00
Mortgage Guarantee Certificates.....	1,566.67			1,566.67
Merced Irrigation District.....	600.00		600.00	
Municipal Ownership Certificates.....	300.00		300.00	
Mortgage Insurance Certificates.....	300.00			300.00
Nevada California Elect. Co.....	250.00	250.00		
Otis Steel Corp.....	120.00	120.00		
Peoples Light & Power Co.....	189.45	189.45		
Province of Santa Fe-Argentina.....	280.00			280.00
Pan American Petroleum Corp.....	300.00	300.00		
Redondo Home Tel. Company.....	300.00	300.00		
Southern Cal. Bldg. & Loan Assn.....	780.00		300.00	480.00
San Joaquin Light & Power Co.....	550.00	550.00		
San Monica Bay Telephone Co.....	300.00	300.00		
San Diego First National Co.....	275.00	275.00		
Savoy-Plaza Co.....	330.00	330.00		
Soiland Building.....	260.00			260.00
Utilities Power & Light.....	275.00	275.00		
Various St. Imp. Bonds.....	1,179.53		1,179.53	

Bonds	Notes	Total	2 % at Source	Interest Received	
				Wholly Exempt	Wholly Taxable
	J. R. Askew-Times Route.....	267.05			267.05
	A. S. Bradford.....	172.50			172.50
	H. J. W. Chevey-Times Route.....	301.00			301.00
	H. B. Freeman.....	175.00			175.00
	C. R. Graves-Times Route.....	83.58			83.58
	C. E. Harris-Times Route.....	131.55			131.55
	Mary Mulgreen.....	450.00			450.00
	Miss F. V. Thornburg.....	750.00			750.00
	Trust 3020.....	1,000.00			1,000.00
	Savings Account (CNB).....	141.10			141.10
	Total.....	\$19,262.43	\$8,339.45	\$3,694.53	\$7,228.45
					[158]

MARIAN OTIS CHANDLER

INCOME TAX, 1929

PROFIT FROM SALE OF REAL ESTATE, STOCKS, BONDS

Kind of Property	Date Acquired	Schedule C		Net Profit
		Amount Received	Cost	
San Diego First Nat. Co. Bond.....	Jan. 1928	\$ 3,090.00	\$ 3,000.00	\$ 90.00
Associated Gas & Elect. Co. rights.....		13.17		13.17
Peoples Light & Power Co. Stock.....	Oct. 1928	5,008.50	4,183.60	824.90
Peoples Light & Power Co. Scrip.....		3.83		3.83
Kolsters Radio—Warrants.....		35.97		35.97
Celite Co.—Bond.....	Nov. 1927	15,375.00	15,000.00	375.00
		<u>\$23,526.47</u>	<u>\$22,183.60</u>	<u>\$1,342.87</u>
				[159]

## MARIAN OTIS CHANDLER

## INCOME TAX 1929

DIVIDENDS	<u>Dividends</u>
Associated Gas and Electric Co.....\$	344.94
American Capital Corporation.....	300.00
Bullock's Inc. ....	700.00
Consolidated Steel Corporation.....	262.50
Cities Service .....	300.00
Citizens National Bank.....	1,220.00
District Bond Company.....	560.00
Discount Corporation .....	976.00
First National Bank.....	464.00
Federal Water Service.....	475.40
Goodyear Textile Mills.....	350.00
Great Western Power Company.....	800.00
Gladding McBean Co.....	746.30
Hunt Bros. Packing Company.....	400.00
Janss Investment Company.....	150.00
L. A. Athletic Club.....	20.40
Pacific Southwest Realty Company.....	1,380.00
Richfield Oil Company.....	560.00
Standard Oil of California.....	562.50
Security Trust and Savings Bank.....	360.00
Santa Monica Bay Telephone.....	128.33
Southern California Gas Company.....	300.00
Southern California Gas Corporation.....	195.00
Superior Portland Cement.....	330.00
Schumacher Wall Board.....	230.00
Security First National Trust & Savings Bank .....	1,070.72
The Times-Mirror Company.....	93,138.00
Tidewater Associated Oil.....	300.00
Union Oil Associates.....	720.95
Union Oil Company.....	1,097.34
Tri Utilities Corporation.....	18.00
Tyre Bros., Glass Company.....	165.83
Whiting Finance Company.....	1,602.25
Woodward Bennett Packing Company.....	350.00
Ever-Ready Drug Company.....	100.00
	<u>\$110,679.46</u>

## MARIAN OTIS CHANDLER

## INCOME TAX—1929

<u>City and County</u>	<u>Taxes Paid</u>	
	<u>Interest Paid</u>	
	<u>Total</u>	
Calipatria Lots .....	\$	64.40
Calexico Lot .....		666.63
Imperial Valley Farm Lands.....		95.42
Lombardy Road Lot.....		263.87
Lot 8-15—Tract 7803.....		203.11
Lot 5-14—Tract 6193.....		105.89
Lot 8-1 —Tract 7803.....		160.14
Lot 12-50—Tract 5609.....		139.74
Lot 12-10—Tract 8235.....		181.67
Wilshire & Vermont.....		500.00
Personal Property Tax.....		429.52
		<u>\$2,810.39</u>

Interest Paid

Contract—Lot 8-15—Tract 7803.....	\$	642.25
“ Lot 8-1 —Tract 7803.....		1,330.00
“ Lot 12-50—Tract 5609.....		577.43
“ Lot 12-10—Tract 8235.....		205.19
“ Wilshire and Vermont.....		2,625.00
		<u>\$5,379.87</u>

## MARIAN OTIS CHANDLER

## INCOME TAX—1929

CONTRIBUTIONS	<u>Contributions</u>
Kobe College (corporation) Japan.....	\$ 500.00
Chicago Theological Seminary.....	500.00
Federal Council of Churches.....	40.00
United Veteran .....	40.00
National Library for Blind.....	5.00
Y. W. C. A.....	250.00
Travelers Aid Society.....	100.00
China Famine Relief.....	50.00
Convalescent Home, Childrens Hospital.....	10.00
War Mothers Benefit.....	10.00
Community Industries .....	35.00
Near East Relief.....	25.00
Home for Aged (Palms).....	25.00
Assistance League .....	5.00
Near East College Association.....	250.00
Ruth Sanitarium .....	100.00
Mary Martha Home for Girls.....	20.00
National Save-a-Life League.....	15.00
American Foundation for Blind.....	50.00
Russian Refugees Benefit.....	5.00
Seaman's Church Institute.....	20.00
American Merchant Marine Library.....	10.00
Playground and Recreation Association.....	25.00
L. A. Tuberculosis Association.....	2.00
First Congregational Church.....	250.00
L. A. Orphans Home.....	100.00
Maternity Cottage .....	500.00
	<hr/>
	\$2,942.00
	<hr/>



## SCHEDULE A—INCOME FROM BUSINESS OR PROFESSION

(Not filled in)

## SCHEDULE B—INCOME FROM RENTS AND ROYALTIES (See Instruction 7)

1. Kind of Property	3. Cost or Value		4. Depreciation		6. Other Expenses (Itemize below)	7. Net Profit (Enter as Item 7)
	2. Amount Received	As of March 1, 1913, Whichever Greater	At foot of page	(Explain in table at foot of page)		
Calexico Lot .....	\$ 15.50	\$ .....	\$ .....	\$ .....	\$ .....	\$ 15.50
Imperial Valley Land .....	113.10	.....	.....	.....	.....	113.10
Oil Lease .....	971.41	Less 27½% depletion .....	.....	.....	.....	704.27
Ground Lease .....	2,160.00	Less amortization \$1,303.53 .....	.....	.....	.....	856.47
Explanation of deductions claimed in Column 6 .....						<u>\$1,689.34</u>

## SCHEDULE C—PROFIT FROM SALE OF REAL ESTATE, STOCKS, BONDS, ETC.

(Not filled in)

SCHEDULE D—CAPITAL NET GAIN OR LOSS FROM SALE OF ASSETS HELD MORE THAN TWO YEARS (See Instruction 8a)

1. Kind of Property	2. Date Acquired	3. Date Sold	4. Amount Received	5. Depreciation Allowable Since Acquisition	6. Cost or Value As of March 1, 1913 Whichever Greater	7. Subsequent Improvements, and Capital Deductions	8. Net Gain or Loss (Enter 12½% as Item 49)
	Mo. Day Year	Mo. Day Year					
Bonds.....	Jan '27	Feb '29	\$1,000.00	\$.....	\$ 960.00	\$.....	\$ 40.00
Bonds.....	May '25	Feb '29	5,250.00	.....	5,000.00	.....	250.00
							<u>\$290.00</u>

State how property was acquired.....

## SCHEDULE E—INTEREST ON LIBERTY BONDS AND OTHER OBLIGATIONS OR SECURITIES

(See Instruction 10)

1. Obligations or Securities	2. Interest Received or Accrued	3. Amount Owned	4. Principal Amount Exempt From Taxation	5. Amount Owned In Excess of Exemption	6. Interest on Amount in Excess of Exemption (Enter as Item 10)
(a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia.....	\$3,694.53	\$52,681.10	All	XXXXXX XX	XXXXXX XX
(b) Securities issued under Federal Farm Loan Act or as Amended, and Certificates of Indebtedness issued after June 17, 1929 .....	.....	.....	All	XXXXXX XX	XXXXXX XX
(c) Liberty 3½% Bonds and other obligations of United States issued on or before September 1, 1917, and obligations of U. S. possessions.....	.....	.....	All	XXXXXX XX	XXXXXX XX
(d) Liberty 4% and 4¼% Bonds, Certificates of Indebtedness issued before June 18, 1929, Treasury Bonds and Savings Certificates .....	.....	.....			
(e) Treasury Notes .....	.....	.....			
			\$5,000	\$ .....	\$ .....
			None	.....	.....

SCHEDULE F—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 1, 14, 16, 17 AND 18

(Not filled in)

EXPLANATION OF DEDUCTIONS FOR DEPRECIATION CLAIMED IN SCHEDULES A AND B

(Not filled in)

EXPLANATION OF DEDUCTION FOR LOSSES BY FIRE, STORM, ETC., CLAIMED IN SCHEDULE A,  
AND IN ITEM 15

(Not filled in)

[163]



Author's Stamp

272

# INDIVIDUAL INCOME TAX RETURN

FOR NET INCOMES FROM SALARIES OR WAGES OF MORE THAN \$5,000  
AND INCOMES FROM BUSINESS, PROFESSION, RENTS, OR SALE OF PROPERTY

For Calendar Year 1930

File This Return With the Collector of Internal Revenue for Your District on or before March 1, 1931

PRINT NAME AND ADDRESS PLAINLY BELOW

Marian Otis Chandler

(Print name)

8330 Hillhurst Ave.

(Street and number, or rural route)

Los Angeles

(Post office)

Los Angeles

(County)

California

(State)

Occupation

Do Not Write in These Spaces

File

507

Serial Number

902161

District

(Collector's Stamp)

MAR 10

Cash Check M.O. Cert. of Ind.

First Payment

\$ 277.1



70.81  
674.49

2-3  
WEP  
E-3

MAR 3 1931

- Are you a citizen or resident of the United States? **Yes**
- If you filed a return for 1929, to what Collector's office was it sent? **Sixth-California**
- Is this a joint return of husband and wife? **No**
- State name of husband or wife if separate return was made and the Collector's office where it was sent. **Mary Chandler Sixth-California**
- Were you married and living with husband or wife on the last day of your taxable year? **Yes**
- If not, were you on the last day of your taxable year supporting in your household one or more persons closely related to you? **No**
- If your status in respect to questions 5 and 6 changed during the year, state date and nature of change.
- How many dependent persons (other than husband or wife) under 18 years of age or incapable of self-support, who receiving their chief support from you on the last day of your taxable year? **None**

## INCOME

1. Salaries, Wages, Commissions, etc.	(State name and address of employer)	Amount received	Expenses paid (Subtract in Schedule F)
Community Income as per schedule attached		\$ 30,320.00	
2. Income from Business or Profession.	(From Schedule A)		
3. Interest on Bank Deposits, Notes, Corporation Bonds, etc.	(except interest on tax-free covenant bonds)	7 158 82	
4. Interest on Tax-free Covenant Bonds Upon Which a Tax was Paid at Source		7 446 49	
5. Income from Partnerships.	(State name and address)		
6. Income from Fiduciaries.	(State name and address)		
7. Rents and Royalties.	(From Schedule D)	2 970 32	
8. Profit from Sale of Real Estate, Stocks, Bonds, etc.	(From Schedule C)	5 55	
9. Taxable Interest on Liberty Bonds, etc.	(From Schedule E)		
10. Dividends on Stock of Domestic Corporations.		77 355 84	
11. Other Income (including dividends on stock of foreign corporations).	(State nature of income)		
(a)			
(b)			

12. TOTAL INCOME IN ITEMS 1 TO 11 \$ 125 237 16

## DEDUCTIONS

13. Interest Paid	\$ 29 069 31
14. Taxes Paid. (Explain in Schedule F)	2 413 28
15. Losses by Fire, Storm, etc. (Explain in Table at foot of page 2)	
16. Bad Debts. (Explain in Schedule F)	
17. Contributions. (Explain in Schedule F)	9 256 00
18. Other Deductions Authorized by Law. (Explain in Schedule F)	

19. TOTAL DEDUCTIONS IN ITEMS 13 TO 18 \$ 40 759 59

20. NET INCOME (Item 12 minus Item 19) \$ 84 478 57

## EARNED INCOME CREDIT

21. Earned Income (not over \$30,000)	\$ 30,000 00
22. Less Personal Exemption and Credit for Dependents	
23. Balance (Item 21 minus 22)	\$ 30,000 00
24. Amount taxable at 1 1/2% (not over \$4,000)	\$ 4,000 00
25. Amount taxable at 5% (not over \$4,000)	\$ 4,000 00
26. Amount taxable at 5% (balance over \$8,000 of Item 23)	\$ 22,000 00
27. Normal Tax (1 1/2% of Item 24)	\$ 60 00
28. Normal Tax (5% of Item 25)	\$ 180 00
29. Normal Tax (5% of Item 26)	\$ 1,100 00
30. Surtax on Item 21	\$ 800 00
31. Tax on Earned Net Income (total of Items 27 to 30)	\$ 2,160 00
32. Credit of 25% of Tax (not over 25% of Items 30, 44, 45, and 46)	\$ 540 00

## COMPUTATION OF TAX (See Instruction 23)

33. Net Income (Item 20 above)	\$ 84,478 57
34. Liberty Bond Interest (Item 9)	\$ 77,355 84
35. Dividends (Item 10)	
36. Credit for Dependents	
37. Personal Exemption	\$ 77,355 84
38. Total of Items 34 to 37	\$ 77,355 84
39. Balance (Item 33 minus 38)	\$ 7,122 73
40. Amount taxable at 1 1/2% (not over \$4,000)	\$ 4,000 00
41. Balance (Item 39 minus 40)	\$ 3,122 73
42. Amount taxable at 5% (not over \$4,000)	\$ 3,122 73
43. Amount taxable at 5% (Item 41 minus 42)	\$
44. Normal Tax (1 1/2% of Item 40)	\$ 60 00
45. Normal Tax (3% of Item 42)	\$ 94 28
46. Normal Tax (5% of Item 43)	
47. Surtax on Item 20 (see Instruction 23)	\$ 8710 93
48. Tax on Net Income (total of Items 44 to 47)	\$ 9865 21
49. Tax on Capital Gain or Loss (12 1/2% of Col. 8, Schedule D)	\$ 146 56
50. Total of or difference between Items 48 and 49	\$ 9716 65
51. Less Credit of 25% of Tax on Earned Income (Item 32)	\$ 528 67
52. Total Tax (Item 50 minus 51)	\$ 9460 08
53. Less Income Tax Paid at Source	\$ 148 95
54. Income Tax paid to a foreign country or U.S. possession	
55. Balance of Tax (Item 52 minus Items 53 and 54)	\$ 9611 13

## AFFIDAVIT

I swear (or affirm) that this return, including the accompanying schedules and statements, has been examined by me, and to the best of my knowledge and belief, is a true and complete return made in good faith for the taxable year stated, pursuant to the Revenue Act of 1926 and the Regulations issued thereunder.

(If return is made by agent, the reason therefor must be stated on this line)

Sworn to and subscribed before me this 7 day of March, 1931.

Marian Otis Chandler  
(Signature of individual or agent)

NOTARIAL SEAL

(Signature of officer administering oath)

(Title)

(Address of agent)

An amended return must be filed with the Collector of Internal Revenue at the place where the original return was filed.

Checks and drafts will be accepted only if payable at par





## HARRY CHANDLER &amp; MARIAN OTIS CHANDLER

## INCOME TAX 1930

## Community Income

## Harry Chandler

The Times Mirror Co.....	\$ 7,800.00	
Directors Fees Yosemite Park & Curry Co. ....	10.00	
Directors Fees Western Air Express..	250.00	
Directors Fees Mortgage Guarantee Co. ....	20.00	
Directors Fees Compania Industrial Jabonera del Pacific S. A.....	21,726.31	
Chandis Securities Company.....	12,000.00	
$\frac{1}{4}$ Depreciation charged to expense by C. S. Co. on Residence House & Automobile .....	639.23	\$42,445.54
<hr/>		

## Marian Otis Chandler

Chandis Securities Co.....	\$17,555.50	
$\frac{1}{4}$ Depreciation charged to expense by C. S. Co. on Residence House & Automobile .....	639.23	\$18,194.73
<hr/>		

Total Income .....	\$60,640.27
--------------------	-------------

$\frac{1}{2}$ to Marian Otis Chandler.....	\$30,320.14
--	-------------

$\frac{1}{2}$ to Harry Chandler.....	30,320.13
--------------------------------------	-----------

[165]



MARIAN OTIS CHANDLER

INCOME TAX 1930

Interest Received

BONDS	Total	2 % at Source	Wholly Exempt	Wholly Taxable
American National Gas Corp.....	\$ 715.00	\$ 715.00	\$ —	\$ —
Boyle Mfg. Co.....	97.33	97.33	—	—
Brownstein Louis Realty Co.....	325.00	325.00	—	—
Beverly Crest .....	420.00	420.00	—	—
Bullocks Inc. ....	600.00	600.00	—	—
Bell Air Property.....	650.00	650.00	—	—
Commercial Discount Corpn.....	300.00	300.00	—	—
City of Orange.....	210.00	—	210.00	—
Central Manufacturing District.....	300.00	300.00	—	—
City of Burbank Improvement.....	350.00	—	350.00	—
Commonwealth of Australia.....	100.00	—	—	100.00
Chamber of Commerce.....	180.00	180.00	—	—
Foreman & Clark.....	300.00	300.00	—	—
Golden State Milk Products.....	300.00	300.00	—	—
Hollywood Hospital .....	325.00	—	325.00	—
Home Service Co.....	650.00	650.00	—	—

BONDS	Total	2 % at Source	Wholly Exempt	Wholly Taxable
Jackson Furniture Co.....	195.00	195.00	—	—
Kern County Improvement.....	480.00	—	480.00	—
L. A. Sanitation District.....	275.00	—	275.00	—
L. A. Traction Co.....	500.00	—	—	500.00
Mortgage Guarantee Certificate.....	1,433.33	—	—	1,433.33
Merced Irrigation District.....	600.00	—	600.00	—
Municipal Ownership Ctfs.....	300.00	—	300.00	—
Mortgage Insurance Corp.....	263.33	—	—	263.33
Nevada Calif. Electric Corp.....	250.00	250.00	—	—
Otis Steel Corpn.....	145.47	145.47	—	—
Province of Santa Fe.....	175.00	—	—	175.00
Pan American Petroleum Corpn.....	300.00	300.00	—	—
Redondo Home Telephone.....	313.33	313.33	—	—
San Luis Obispo—Road Imp.....	248.10	—	248.10	—
San Bernardino “ “.....	83.25	—	83.25	—
San Joaquin Light & Power.....	496.67	496.67	—	—
Santa Monica Bay Telephone.....	205.00	205.00	—	—
San Diego First Nat'l. Co.....	98.69	98.69	—	—
Savoy Plaza Corp.....	330.00	330.00	—	—
Soiland Building Corp.....	520.00	—	—	520.00
Utilities Power & Light.....	275.00	275.00	—	—
U. S. Rubber Corp.....	45.00	—	—	45.00

BONDS	Total	2 % at Source	Wholly Exempt	Wholly Taxable
NOTES				
J. R. Askew.....	232.05	—	—	232.05
A. S. Bradford.....	122.50	—	—	122.50
H. J. W. Cheney.....	301.00	—	—	301.00
Mr. C. Dodd.....	304.92	—	—	304.92
H. B. Freeman.....	87.50	—	—	87.50
C. R. Graves.....	194.38	—	—	194.38
Mary Mulqueen.....	427.50	—	—	427.50
Trust 3020 (Distribution).....	1,000.00	—	—	1,000.00
Miss F. V. Thornburg.....	840.00	—	—	840.00
Savings Accounts (C. N. B.).....	99.22	—	—	99.22
Int. on over assessment of Income Tax 1920.....	33.09	—	—	33.09
So. California Building & Loan.....	780.00	—	300.00	480.00
				[167]
BONDS—(Street Improvement)				
Devonshire Ave. ....	110.27	—	110.27	—
First Street .....	4.16	—	4.16	—
Hermosa Beach .....	94.23	—	94.23	—
Linda Vista Pasadena.....	143.73	—	143.73	—
Santa Monica .....	15.03	—	15.03	—
Wilshire Blvd. ....	257.32	—	257.32	—
Whitsett Ave. ....	258.09	—	258.09	—
Total.....	\$18,659.49	\$7,446.49	\$4,054.18	\$7,158.82
				[168]



## MARIAN OTIS CHANDLER

## INCOME TAX 1930

## Rentals &amp; Royalties—Schedule “B”

Citizens National Bank Lease (\$180.00 Monthly)	
(1930 Income \$2,160.00 Amortization).....	\$1,303.53    \$ 856.47
Calexico Lot .....	45.00
Imperial Valley Farm Lands.....	19.66
Santa Fe Springs Oil Lease Total Received	
(\$792.04 less 27½%).....	574.23
Rosemary Route .....	1,474.96
	<hr/>
To Line 7	\$2,970.32
	<hr/> <hr/>
	[169]

## MARIAN OTIS CHANDLER

## INCOME TAX 1930

## Dividends

Associated Gas & Electric.....	\$ 162.50
American Capital Corp.....	300.00
Bullocks .....	700.00
Consolidated Steel .....	350.00
Cities Service .....	146.57
Citizens National Bank.....	1,722.00
District Bond Co.....	567.48
Discount Corp. of Calif.....	244.00
Federal Water Service.....	559.20
Goodyear Textile Mills.....	350.00
Great Western Power Co.....	800.00
Gladding McBean Co.....	958.81
Hunt Brothers Packing Co.....	400.00
Janss Investment Co.....	600.00
L. A. Athletic Club.....	20.40
L. A. Investment Co.....	28.80
Massachusetts Investors Trust.....	345.68
Pacific S. W. Realty Co.....	746.25
Pacific Finance Co.....	586.08
Richfield Oil Co. of Cal.....	560.00
Standard Oil Co. of Calif.....	642.63
So. California Gas Co.....	300.00
So. California Gas Corp.....	195.00
Superior Portland Cement.....	330.00
Schumacher Wallboard .....	230.00
Security First National Bank.....	2,141.44
Security Company .....	100.00
Times Mirror Company.....	58,824.00
Tidewater Associated Oil.....	300.00
Trustee Standard Oil Shares.....	226.50
Union Oil Associates.....	824.51
Union Oil Co. of Calif.....	1,225.61
Tri Utilities Co.....	230.40
Tyre Bros. Glass Co.....	420.00
Merchants Finance Co.....	847.98
Woodward Bennett Packing Co.....	350.00

---

To Line 10.....\$77,335.84

---

## MARIAN OTIS CHANDLER

## INCOME TAX 1930

## Contributions

American Brotherhood for Blind.....	\$ 10.00
Disabled Veterans .....	16.00
University of So. California.....	50.00
Childrens Hospital Society.....	10.00
China Child Welfare.....	60.00
Traveler's Aid Society.....	100.00
Federal Council of Churches.....	20.00
King's Daughters & Sons.....	25.00
Sheriffs Relief Assoc.....	2.00
First Congregational Church.....	1,250.00
L. N. Brunswick (Maisons Claires).....	25.00
Seamen's Church Institute.....	20.00
National Recreation Assoc.....	25.00
Crippled Childrens Guild.....	5.00
L. A. Orphans Home.....	100.00
Maternity Cottage .....	500.00
Golden Rule Foundation.....	25.00
Community Industries .....	10.00
National Society Prevention Tuberculosis.....	3.00
California Institute of Technology.....	7,000.00

---

To Line 17.....\$9,256.00

---

[171]

## MARIAN OTIS CHANDLER

## INCOME TAX 1930

## City, County &amp; Irrig. Taxes Paid

Calipatria Lots .....	\$ 63.50
Calexico Lot .....	656.83
Imperial Valley Farm Lands.....	96.51
Pasadena Lot #9 Tract #7988.....	146.88
Lot 18 Block 15 Tract #7803.....	183.54
“ 5 “ 14 “ 6193.....	95.92
“ 8 “ 1 “ 7803.....	180.49
“ 12 “ 50 “ 5609.....	183.54
“ 12 “ 10 “ 8235.....	79.34
Wilshire & Vermont.....	450.00
Personal Property Tax.....	276.73

---

To Line 14..... 2,413.28

---

## Interest Paid

Chandis Securities Co.....	\$ 1,448.66
Lot 18, Block 5 Tract #7803 (Janss Inv. Co.)	420.00
Lot 8, Block 1 Tract #7803 (H. Wisdom).....	1,190.00
“ 12 “ 50 “ #5609 (Buchanan) .....	320.82
“ 12 “ 10 “ #8235 (Janss Inv. Co.).....	87.85
Wilshire & Vermont.....	2,300.00
Interest on deficiency of 1921 Income Tax.....	13,612.63
“ “ “ “ 1922 “ “ .....	4,966.86
“ “ “ “ 1923 “ “ .....	4,742.49

---

To Line 13.....\$29,089.31

---

[172]

## SCHEDULE A—INCOME FROM BUSINESS OR PROFESSION

(Not filled in)

## SCHEDULE B—INCOME FROM RENTS AND ROYALTIES

(Not filled in)

## SCHEDULE C—PROFIT FROM SALE OF REAL ESTATE, STOCKS, BONDS, ETC. (See Instruction 8)

1. Kind of Property	2. Date Acquired	3. Amount Realized	4. Depreciation Allowable Since		5. Cost or Value As of March 1, 1913, Whichever Greater	6. Subsequent Improvements (Enter as Item 8)	7. Net Profit
			Acquisition	Disposal			
Bonds—U. S. Rubber Corp.....	1930	\$9,900.00	\$9,902.00		\$.....	\$.....	\$ 2.00
Rights—Trustees—Standard Oil .....	1930	7.55	—		.....	.....	7.55
State how property was acquired.....							5.55

## SCHEDULE D—CAPITAL NET GAIN OR LOSS FROM SALE OF ASSETS HELD MORE THAN TWO YEARS (Not filled in)

**SCHEDULE E—INTEREST ON LIBERTY BONDS AND OTHER OBLIGATIONS OR SECURITIES**  
(See Instruction 9)

1. Obligations or Securities	2. Interest Received or Accrued	3. Amount Owned	4. Principal Amount Exempt From Taxation	5. Amount Owned in Excess of Exemption	6. Interest on Amount in Excess of Exemption (Enter as Item 9)
(a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia .....	\$3,754.18	\$62,122.66	All	XXXXX XX	XXXXXX XX
(b) Securities issued under Federal Farm Loan Act, Treasury Bills, and Certificates of Indebtedness issued after June 17, 1929 .....		.....	All	XXXXX XX	XXXXXX XX
(c) Liberty 3½% Bonds and other obligations of United States issued on or before September 1, 1917, and obligations of U. S. possessions .....		.....	All	XXXXX XX	XXXXXX XX
(d) Liberty 4% and 4¼% Bonds, Certificates of Indebtedness issued before June 18, 1929, Treasury Bonds and Savings Certificates .....		.....		\$ .....	\$ .....
(e) Treasury Notes .....		.....	\$5,000	None	.....



SCHEDULE F—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 1, 14, 16, 17 AND 18

(Not filled in)

EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SCHEDULES A AND B

(Not filled in)

EXPLANATION OF DEDUCTION FOR LOSSES BY FIRE, STORM, ETC., CLAIMED IN SCHEDULE

A AND IN ITEM 15 (Not filled in)

[173]

Form 1120  
U.S. INTERNAL REVENUE  
CORPORATION INCOME TAX RETURN  
For Calendar Year 1923  
Filing Date: 10/19/24  
C.A.R. 10/19/24  
100 North Broadway St.  
Los Angeles, California  
Date of Incorporation: November, 1916  
Under the Laws of What State or Country: California

# CORPORATION INCOME TAX RETURN

For Calendar Year 1923

Page 1 of Return  
DO NOT WRITE IN THESE SPACES  
SERIAL NUMBER: 951071  
FILE CODE  
FIRST PAYMENT  
JUN 1 1925  
LOS ANGELES OFFICE

File This Return With the Collector of Internal Revenue for Your District on or Before March 15, 1924

PRINT PLAINLY CORPORATION'S NAME AND BUSINESS ADDRESS

CHANDIS SECURITIES COMPANY

100 North Broadway St.

Los Angeles, California

Date of Incorporation: November, 1916

Under the Laws of What State or Country: California

9th CALIFORNIA  
Credited to State

KIND OF BUSINESS: selling, holding and leasing Real-Estate IS THIS A CONSOLIDATED RETURN? No

GROSS INCOME		
1. Gross Sales from Trading or Manufacturing, Less Returns and Allowances		
2. Less Cost of Goods Sold:		
(a) Inventory at beginning of year	RMV 10/1/23	
(b) Merchandise bought for sale		
(c) Cost of manufacturing or otherwise producing goods (From Schedule A)		
(d) Total of lines (a), (b), and (c)		
(e) Less inventory at end of year		
3. Gross Profit from Trading or Manufacturing (Item 1 minus Item 2)		
4. Gross Profit from Operations Other Than Trading or Manufacturing		
(a)		
(b)		
(c)		
5. Interest on Bank Deposits, Notes, Mortgages, and Corporation Bonds		82 744 29
6. Rents		30 341 77
7. Royalties		
8. Profit from Sale of Real Estate, Stocks, Bonds, and other Capital Assets (From Schedule B)		64 127 90
9. Dividends on Stock of Domestic Corporations		141 276 48
10. Other Income (including dividends received on stock of foreign corporations)		63 857 66
(a)		
(b)		
(c)		
11. TOTAL INCOME IN ITEMS 3 TO 10		392 348 10

DEDUCTIONS		
12. Compensation of Officers (From Schedule C)		14 900
13. Rent on Business Property		
14. Repairs (From Schedule D)		
15. Interest		238 577 33
16. Taxes (From Schedule E)		11 770 63
17. Losses by Fire, Storm, etc. (From Schedule F)		
18. Bad Debts (From Schedule G)		4 123
19. Dividends (From Schedule H)		141 276 48
20. Depreciation (resulting from exhaustion, wear and tear, or obsolescence) (From Schedule I)		8 280 92
21. Amortization of War Facilities		
22. Depletion of Mines, Oil and Gas Wells, Timber, etc.		
23. Other Deductions Not Reported Above. (Explain below, or on separate sheet):		81 690 41
(a)		
(b)		
(c)		
(d)		
(e)		
24. TOTAL DEDUCTIONS IN ITEMS 12 TO 23		1 000 618 84
25. NET INCOME (Item 11 minus Item 24)		618 270 94

COMPUTATION OF TAX		
26. Net Income (Item 25 above)		
27. Less Credit of \$2,000 (for a domestic corporation having a net income of less than \$25,000)		
28. Balance (Item 26 minus Item 27)		
29. Income Tax Paid at Source (This credit can only be allowed to a nonresident foreign corporation)		
30. Income and Profits Taxes Paid to a Foreign Country or to a Possession of the United States by a domestic corporation		
31. Balance of Tax (Item 28 minus Items 29 and 30)		



## SCHEDULE K—BALANCE SHEETS. (See Instruction 26.)

Items.	BEGINNING OF TAXABLE PERIOD.		END OF TAXABLE PERIOD.	
	Amount.	Total.	Amount.	Total.
<b>ASSETS.</b>				
1. Cash		\$ 2,503.83		\$ 106,758.88
2. Notes receivable		641,738.29		781,877.06
3. Accounts receivable	\$ 269,095.60		\$ 95,982.40	
Less reserve for bad debts		269,095.60		95,982.40
4. Inventories:				
Raw materials	\$		\$	
Work in process				
Finished goods				
Supplies				
5. Investments (describe fully):				
Bonds: U. S. Liberty Bonds	\$ 90,543.87		\$ 169,793.87	
Other	35,176.22		29,024.81	
Stocks of domestic corporations	1,910,625.51	2,036,348.60	2,628,616.48	2,827,435.16
6. Loans (describe fully):				
Trusts	\$ 401,776.88		\$ 498,964.99	498,964.99
7. Deferred charges:				
Prepaid insurance				
Prepaid taxes	\$		\$	
Miscellaneous		22,966.19	90,546.90	90,546.90
8. Capital assets:				
Land		393,306.32		474,725.96
Buildings	\$ 44,947.49		\$ 44,947.49	
Machinery and equipment				
Furniture and fixtures	14,402.38		14,402.38	
Delivery equipment				
Automobiles	18,571.95		18,571.95	
Less reserves for depreciation and depletion	\$ 77,921.82		\$ 77,921.82	
9. Patents				
10. Good will	32,213	45,708.82	40,493.99	37,427.83
11. Other assets (describe fully):	\$		\$	
12. Total Assets		\$3,813,444.53		\$4,913,719.18
<b>LIABILITIES.</b>				
13. Notes payable		\$2,162,074.01		\$2,825,843.28
14. Accounts payable		157,976.10		68,379.79
15. Accrued expenses (describe fully):				
Deferred Credits	\$ 88,185.66		\$ 178,911.10	178,911.10
16. Other liabilities (describe fully):				
Trusts	\$ 21,500	21,500	\$ 242,000.77	242,000.77
17. Capital stock:				
Preferred stock (less stock in treasury)	\$		\$	
Common stock (less stock in treasury)	500,000	500,000	500,000	500,000
18. Surplus	\$ 883,708.76	883,708.76	\$1,098,584.24	1,098,584.24
19. Undivided profits				
20. Total Liabilities		\$3,813,444.53		\$4,913,719.18
Remarks				





(1) Interest on obligations of the United States and by whom (2) Interest on obligations of States, Territories, and Possessions (3) Interest on bonds, notes, and other securities of any corporation or other entity (4) Dividends on stocks of any corporation or other entity (5) Dividends on stocks of any corporation or other entity (6) Dividends on stocks of any corporation or other entity (7) Dividends on stocks of any corporation or other entity (8) Dividends on stocks of any corporation or other entity (9) Dividends on stocks of any corporation or other entity (10) Dividends on stocks of any corporation or other entity (11) Dividends on stocks of any corporation or other entity (12) Dividends on stocks of any corporation or other entity (13) Dividends on stocks of any corporation or other entity (14) Dividends on stocks of any corporation or other entity (15) Dividends on stocks of any corporation or other entity (16) Dividends on stocks of any corporation or other entity (17) Dividends on stocks of any corporation or other entity (18) Dividends on stocks of any corporation or other entity (19) Dividends on stocks of any corporation or other entity (20) Dividends on stocks of any corporation or other entity (21) Dividends on stocks of any corporation or other entity (22) Dividends on stocks of any corporation or other entity (23) Dividends on stocks of any corporation or other entity (24) Dividends on stocks of any corporation or other entity (25) Dividends on stocks of any corporation or other entity (26) Dividends on stocks of any corporation or other entity (27) Dividends on stocks of any corporation or other entity (28) Dividends on stocks of any corporation or other entity (29) Dividends on stocks of any corporation or other entity (30) Dividends on stocks of any corporation or other entity (31) Dividends on stocks of any corporation or other entity (32) Dividends on stocks of any corporation or other entity (33) Dividends on stocks of any corporation or other entity (34) Dividends on stocks of any corporation or other entity (35) Dividends on stocks of any corporation or other entity (36) Dividends on stocks of any corporation or other entity (37) Dividends on stocks of any corporation or other entity (38) Dividends on stocks of any corporation or other entity (39) Dividends on stocks of any corporation or other entity (40) Dividends on stocks of any corporation or other entity (41) Dividends on stocks of any corporation or other entity (42) Dividends on stocks of any corporation or other entity (43) Dividends on stocks of any corporation or other entity (44) Dividends on stocks of any corporation or other entity (45) Dividends on stocks of any corporation or other entity (46) Dividends on stocks of any corporation or other entity (47) Dividends on stocks of any corporation or other entity (48) Dividends on stocks of any corporation or other entity (49) Dividends on stocks of any corporation or other entity (50) Dividends on stocks of any corporation or other entity (51) Dividends on stocks of any corporation or other entity (52) Dividends on stocks of any corporation or other entity (53) Dividends on stocks of any corporation or other entity (54) Dividends on stocks of any corporation or other entity (55) Dividends on stocks of any corporation or other entity (56) Dividends on stocks of any corporation or other entity (57) Dividends on stocks of any corporation or other entity (58) Dividends on stocks of any corporation or other entity (59) Dividends on stocks of any corporation or other entity (60) Dividends on stocks of any corporation or other entity (61) Dividends on stocks of any corporation or other entity (62) Dividends on stocks of any corporation or other entity (63) Dividends on stocks of any corporation or other entity (64) Dividends on stocks of any corporation or other entity (65) Dividends on stocks of any corporation or other entity (66) Dividends on stocks of any corporation or other entity (67) Dividends on stocks of any corporation or other entity (68) Dividends on stocks of any corporation or other entity (69) Dividends on stocks of any corporation or other entity (70) Dividends on stocks of any corporation or other entity (71) Dividends on stocks of any corporation or other entity (72) Dividends on stocks of any corporation or other entity (73) Dividends on stocks of any corporation or other entity (74) Dividends on stocks of any corporation or other entity (75) Dividends on stocks of any corporation or other entity (76) Dividends on stocks of any corporation or other entity (77) Dividends on stocks of any corporation or other entity (78) Dividends on stocks of any corporation or other entity (79) Dividends on stocks of any corporation or other entity (80) Dividends on stocks of any corporation or other entity (81) Dividends on stocks of any corporation or other entity (82) Dividends on stocks of any corporation or other entity (83) Dividends on stocks of any corporation or other entity (84) Dividends on stocks of any corporation or other entity (85) Dividends on stocks of any corporation or other entity (86) Dividends on stocks of any corporation or other entity (87) Dividends on stocks of any corporation or other entity (88) Dividends on stocks of any corporation or other entity (89) Dividends on stocks of any corporation or other entity (90) Dividends on stocks of any corporation or other entity (91) Dividends on stocks of any corporation or other entity (92) Dividends on stocks of any corporation or other entity (93) Dividends on stocks of any corporation or other entity (94) Dividends on stocks of any corporation or other entity (95) Dividends on stocks of any corporation or other entity (96) Dividends on stocks of any corporation or other entity (97) Dividends on stocks of any corporation or other entity (98) Dividends on stocks of any corporation or other entity (99) Dividends on stocks of any corporation or other entity (100) Dividends on stocks of any corporation or other entity 		8,500 141,276.40 32,666.77 44,099.95 11,086.62 11,086.62
--	--	---

## QUESTIONS.

1. By means of the key letters given below, identify the corporation's main income-producing activity with one of the general classes, and follow this by a special description of the business sufficient to give the information called for under each general class.

A.—Agriculture and related industries, including fishing, logging, ice harvesting, etc., and also the leasing of such property. B.—Mining and oil wells, and also the leasing of such property. C.—Manufacturing. State the product and also the material if not implied by the name of the product. D.—Construction—excavations, buildings, bridges, railroads, ships, etc., also equipping and installing same with systems, devices, or machinery, without their manufacture. State nature of structures built, materials used, or kind of installations. E.—Transportation—rail, water, local, etc. State the kind and special product transported, if any. F.—Public utilities—gas (natural, coal, or water); electric light or power (hydro or steam generated); heating (steam or hot water); telephone; waterworks or power. G.—Storage—without trading or profit from sales—(elevators, warehouses, stockyards, etc.). State product stored. H.—Leasing transportation or utilities. State kind of property. I.—Trading in goods bought and not produced by the trading concern. (State manner of trade, whether wholesale, retail, or commission, and product handled. Sales with storage with profit primarily from sales. J.—Service—domestic, including hotels, restaurants, etc.; amusements; other professional, personal, or technical service. K.—Finance, including banking, real estate, insurance, etc.—concerns not falling in above classes (a) because of combining several of them with no predominant business, or (b) for other reasons.

2. Concerns whose business involves activity falling in two or more of the above general classes, where the same product is concerned, should report business as identified with but one of the above general classes; for example, concerns in A or B which also transport and market their own product exclusively or mainly, should still be identified with classes A or B, concerns in C (manufacturer), which own or control their source of material supply in A or B and which also transport, sell, or install their own product exclusively or mainly, should be identified with manufacturing; concerns in D may control or own source of supply of materials used exclusively or mainly in their construction; concerns in E or F may own or control the source of their material or power; concerns in F may transport or store their own merchandise, but its production would identify them as A, B, or C.

3. Answer:  
 (a) General class (use key letter designation) H  
 (b) Main income-producing business (specify especially the information called for under each key letter, also whether acting as principal, or as agent or commission; state if inactive or in liquidation) Finance—Real Estate

AFFILIATIONS WITH OTHER CORPORATIONS.  
(TO BE ANSWERED BY EVERY CORPORATION.)

4. Does the corporation own directly or control through closely affiliated interests or by a nominee or nominees over 70 per cent of the outstanding voting capital stock of another corporation or of other corporations? No

5. Is over 70 per cent of your outstanding voting capital stock owned by another corporation or by two or more corporations that are affiliated? No

6. Is over 70 per cent of your outstanding voting capital stock as well as over 70 per cent of the outstanding voting capital stock of another corporation or of other corporations owned or controlled by the same individual or partnership or by the same individuals or partnerships? No

7. If the answer to questions 4, 5, and 6, or to any of them, is "yes," answer the following:  
 (a) Did the corporation file Affiliated Corporations Questionnaire, Form 618, for 1917 or subsequent taxable years? No If the answer to this question is "yes," a questionnaire is not required, except under the circumstances described in question (b). If the answer to this question is "no," and the answer to questions 4, 5, and 6, or to any of them, is "yes," procure from the Collector of Internal Revenue for your district, Forms 851, 852, and 853, Affiliations Schedules 1, 2, and 3, which shall be filled in and filed as a part of this return. If the answer to this question is "no," questions (b) need not be answered.

## AFFIDAVIT.

We, the undersigned, president and treasurer of the corporation for which this return is made, being severally duly sworn, each for himself depose and say that this return, including the accompanying schedules and statements, has been examined by him and is, to the best of his knowledge and belief, true and complete return and report of the corporation for the taxable period as stated, pursuant to the Revenue Act of 1921 and the Regulations issued under authority thereof.

Sworn to and subscribed before me this 13th day of June, 1924.

Notary Public

IN AND FOR THE COUNTY OF Los Angeles, STATE OF California

My Commission Expires May 1, 1925

Exhibit 9





Gross Income

\* \* \* \* \*

Deductions

\* \* \* \* \*

25. Net Income (Item 11 minus Item 24).....\$ None

Computation of Tax

34. Balance of Tax (Item 31 minus Items  
32 and 33) .....\$ None

[179]

AFFIDAVIT.

We, the undersigned, president and treasurer of the corporation for which this return is made, being severally duly sworn, each for himself deposes and says that this return, including the accompanying schedules and statements has been examined by him and is, to the best of his knowledge and belief, a true and complete return made in good faith, for the taxable period as stated, pursuant to the Revenue Act of 1921 and the Regulations issued under authority thereof.

HARRY CHANDLER

President.

MARIAN OTIS CHANDLER

Treasurer.

Sworn to and subscribed before me this 14 day of March, 1924.

(Seal)

ARTHUR CRUM,

Notary Public In and for the County of Los Angeles, State of California. [180]



CHANDIS SECURITIES COMPANY  
Income Tax—1923

Schedule B

SCHEDULE B—PROFIT FROM SALE OF REAL ESTATE,  
STOCKS, BONDS, AND OTHER CAPITAL ASSETS:

1. Kind of Property	2. Date Acquired	3. Amount Received	4. Depreciation	5. Cost	6. Net Profit	7. Net Loss
(Lot 24—Blk. 60—Owensmouth.....)	Oct. 31, 1919	\$ 850.00		\$ (850.00 ( 3.75 Asses't.		\$ 3.75
Republic of France—8% Bonds.....	Sept. 23, 1920	5,102.50		5,115.00		12.50
Real Estate (Lot SE Cor. Washington & Grand.....)	Jan. 27, 1923	50,000.00		33,769.03	\$16,230.97	
“ “ (Lot 32—Blk. 30—Tract 1200).....	Jan. 1, 1917	650.00		551.73	98.27	
“ “ (Lot 40—Blk. 30—Tract 1200).....	Jan. 1, 1917	700.00		601.73	98.27	
“ “ (Lot 15—Blk. 31—Tract 1200).....	Jan. 1, 1917	825.00		601.73	223.27	
“ “ (Lot 26—Blk. 40—Tract 1200).....	Jan. 1, 1917	700.00		551.73	148.27	
“ “ (Lots 1108-1109-1110—Tract 1000).....	Jan. 1, 1917 (See Schedule Below)				25,216.52	
“ “ (503 No. Broadway—Caldron.....)	Jan. 1, 1917 “ “ “				1,100.00	
“ “ (Lot 340—Tract 1000—Erastus Nichol.....)	Jan. 1, 1917 “ “ “				4,440.00	
“ “ (Lot 99—Tract 1875.....)	Jan. 1, 1917	1,870.00			1,870.00	
“ “ (Lot 1107—Tract 1000.....)	Jan. 1, 1917 (See Schedule Below)				14,718.58	
Total profit.....					\$64,144.15	16.25
Deduct loss.....					16.25	
Net profit.....					\$64,127.90	

## Explanatory to Schedule B

Description of Property	Sales Price	Cost	Percentage of Profit	Collections—1923	Profit Returnable—1923
Lots 1108-1109-1110 Tract 1000.....	\$142,000.00	\$71,500.00	\$49.648%	\$50,790.00	\$25,216.52
503 No. Broadway.....	10,000.00	5,000.00	50 %	2,200.00	1,100.00
Lot 340—Tract 1000.....	34,495.50	23,881.50	44.4 %	10,000.00	4,440.00
Lot 1107—Tract 1000.....	89,397.00	24,381.00	72.72 %	20,262.82	14,718.58



## Income Tax—1923

## SCHEDULE G—BAD DEBTS:

Name	Amount	Remarks
T. P. Murray.....	\$ 215.00	Worthless
Community Arts Alliance.....	1,000.00	Out of Business
W. F. McShane.....	1,600.00	Bankrupt
Imogene, Francis.....	35.00	Uncollectible, address unknown
George King.....	10.00	" " "
Mrs. I. McGuire.....	8.00	" " "
Mrs. Wm. Murphy.....	25.00	" " "
Harry Riefner.....	5.00	" " "
L. M. Solomon.....	5.00	" " "
Merch E. Perry.....	20.00	" " "
Carrie Otis.....	1,000.00	Worthless
F. N. Dowd.....	100.00	Uncollectible, address unknown
Carlos J. Brecino.....	50.00	" " "
F. L. Kendall.....	50.00	" " "
	<u>\$4,123.00</u>	

## SCHEDULE I—DEPRECIATIONS:

1. Kind of Property	2. Date Acquired	3. Age When Acquired	4. Probable Life	5. Cost	Depreciation Charged Off	
					This Year	Previous Years
Automobile—Chandler.....	1919	New	5 years	\$ 1,558.10	\$ 111.62	\$ 1,246.48
“ —Ford—Sedan.....	1920	“	5 years	1,002.80	200.56	601.68
“ —Hudson.....	1919	“	5 years	2,515.00	203.00	2,012.00
“ —Lincoln.....	1921	“	5 years	7,150.40	1,430.00	2,860.00
“ —Oakland.....	1919	“	5 years	2,250.00	150.00	1,800.00
“ —Studebaker.....	1921	“	5 years	1,797.30	359.46	385.66
“ —Buick.....	1922	“	5 years	2,298.35	459.67	—
Furniture and Fixtures.....	1917	“	10 years	14,402.38	1,440.36	8,130.81
Dwelling House—Frame & Brick.....	1917	“	20 years	44,947.49	2,247.37	13,432.62
Business Block at Calipatria.....	1921	Six years	20 years	13,500.00	675.00	843.75
Brick Bldg. 926 So. Olive.....	1920	New	33 years	15,000.00	450.00	900.00
“ “ 933 So. Olive.....	1922	“	20 years	11,078.89	553.95	—
					<u>\$8,280.99</u>	

## ITEM 10—OTHER INCOME:

Big Conduit Land Co.—Return over and above cost	\$21,033.00
Ramona Ranch Co. “ “ “ “ “	1,130.51
San Fernando Land Co. “ “ “ “ “	6,022.14
Fielding J. Stilson Recovery of bad debt.....	170.83
Title Insurance & Trust Co. Trustee—Trust S-5505	19,069.89
“ “ “ “ “ Trust S-4867	7,334.47
“ “ “ “ “ Trust S-5449	2,834.41
“ “ “ “ “ Trust S-3074	481.74
“ “ “ “ “ Trust A-4205	2,279.06
“ “ “ “ “ Trust A-3601	544.34
“ “ “ “ “ Trust S-5925	2,957.27

\$63,857.66

## ITEM 23

Discount and expense on lot sales.....	\$13,366.53
Wages.....	13,506.50
Title Insurance & Trust Co. Trustee—Trust S-6067	656.44
“ “ “ “ “ Trust S-4846	7.38
“ “ “ “ “ Trust S-5975	27,764.66
“ “ “ “ “ Trust S-5638	9,226.22
General Expense.....	17,162.68
	<u>\$81,690.41</u>





CHANDIS SECURITIES COMPANY  
Income Tax—1923

Schedule H

## SCHEDULE H—DIVIDENDS DEDUCTIBLE:

## SOURCE

Central Inc. Corporation.....	\$ 10.78
Cinema Finance Corporation.....	388.26
Citizens National Bank.....	803.00
Citizens Trust & Savings Bank.....	202.00
District Bond Company.....	500.00
First Nat. Bank of Los Angeles.....	1,080.00
Los Angeles Athletic Club.....	60.00
Los Angeles Morris Plan Bank.....	300.00
Mortgage Guarantee Company.....	770.00
Shell Union Oil Company.....	1,260.86
Times-Mirror Company.....	67,515.66
Union Oil Co. of California.....	94.55
Union Rock Company.....	4,800.00
L. A. Pressed Brick Company.....	20.00
Signal Mt. Land & Cattle Company.....	300.00
Misc. Alpha Omicron Pi House.....	3.50
Dividends from Tr. 3872.....	67,098.87
Dividends from 1st Nat. Bank.....	225.00
Union Rock Company (1922).....	1,200.00
	<u>146,632.48</u>
Adjustment.....	5,356.00
Total.....	<u>\$141,276.48</u>

[183]

CHANDIS SECURITIES COMPANY  
Income Tax 1923

Schedule L—Line 4

## LOSSES REPORTED BUT NOT APPEARING ON CORPORATE BOOKS:

Losses reported by Title Insurance & Trust Company of Los Angeles, Calif. as being sustained by Chandis Securities Company by reason of operating the following numbered tracts, in which trusts the Title Insurance & Trust Company acts as trustee and in which Chandis Securities Company has a beneficial interest.

Trust #S-6067.....	\$ 656.44
Trust #S-4846.....	7.38
Trust #S-5975.....	27,764.66
Trust #S-5638.....	9,226.22
	<u>\$37,654.70</u>

Schedule L—Line 13-1

## INCOME REPORTED BUT NOT APPEARING ON CORPORATE BOOKS:

Income reported by Title Insurance & Trust Company of Los Angeles, Calif. as accruing to the Chandis Securities Company by reason of operating the following numbered trusts, in which trusts the Title Insurance & Trust Company acts as trustee and in which Chandis Securities Company has a beneficial interest.

Trust #S-5005.....	\$19,069.89
Trust #S-4867.....	7,334.47
Trust #S-3074.....	481.74
Trust #A-4205.....	2,279.06
Trust #A-3601.....	544.34
Trust #S-5925.....	2,957.27
	<u>\$32,666.77</u>

Note: Additional income was reported by Title Insurance & Trust Company as accruing to Chandis Securities Company in a total sum of \$7,261.38, in Trusts A-636—A-687—A-762—A-5441—A-5814.

The foregoing sum has been received by Chandis Securities Company and is reported and included in the "Interest" receipts in this return.

[184]



Rec'd copy of within affidavit on April 6, 1940  
at 10:55 A. M.

COSGROVE & O'NEIL  
F. B. YOAKUM, JR.  
A. CALDER MACKAY  
By F. B. YOAKUM, JR.

[Endorsed]: Filed Apr. 6, 1940. [185]

---

At a stated term, to wit: The February Term,  
A. D. 1940 of the District Court of the United  
States of America, within and for the Central Di-  
vision of the Southern District of California, held  
at the Court Room thereof, in the City of Los An-  
geles on Monday the 8th day of April in the year  
of our Lord one thousand nine hundred and forty.  
Present:

The Honorable: Leon R. Yankwich, District  
Judge.

[Title of Cause.]

This cause coming on for hearing motion to quash  
order for production of records; A. Calder Mackay,  
Esq., appearing as counsel for the defendant:

On motion of Attorney Mackay it is ordered that  
the cause be, and it hereby is, continued to April  
22, 1940, at 2 o'clock P. M. for the said hearing;  
return date on the Order to produce being contin-  
ued to the same date. [186]

[Title of District Court and Cause.]

AFFIDAVIT OF H. E. DOWNING

State of California

County of Los Angeles—ss.

H. E. Downing, being first duly sworn, deposes and says: That he is the H. E. Downing named as one of the respondents in the above entitled case.

That neither on or about September 15, 1931, nor at any time did affiant tell Charles W. Donnally, Internal Revenue Agent, that the notes of the Chandis Securities Company held by Mrs. Marian Otis Chandler and her children had been cancelled in 1929;

That neither on or about September 15, 1931, nor at any time did affiant tell said Internal Revenue Agent that if said notes were found, they would indicate on their face that they were cancelled in 1929; that neither on or about September 15, 1931, nor at any time did affiant tell said Internal Revenue Agent that a former bookkeeper was responsible for misplacing the said notes.

That it is not true that Agent Donnally repeatedly requested affiant to produce said notes. Affiant has no recollection that said agent ever requested affiant to produce said notes. It is not true that affiant repeatedly, or at all, told said Agent that said notes had been misplaced. It is not true that affiant repeatedly, or at all, told Agent Donnally that affiant was unable to produce said notes.

[187]

That affiant in the proceedings before the United States Board of Tax Appeals of Mrs. Marian Otis Chandler and her children for the year 1929 (which proceedings were held in Long Beach on the 5th day of October, 1933) testified on cross examination, conducted by the Commissioner's counsel, in part as follows:

"Q. Do you know Revenue Agent Donnally?

"A. Yes, I do.

"Q. This is Mr. Donnally sitting here?

"A. Yes.

"Q. I will ask you if you did not inform him in October, 1931, that those notes were cancelled in 1929?

"A. No, sir, I did not.

"Q. You did not so inform him?

"A. No."

That during the hearing in said proceedings before the United States Board of Tax Appeals Revenue Agent Donnally was in the court room assisting the Government counsel in the presentation of the Commissioner's case; that prior to said hearing Revenue Agent Donnally checked the stipulation submitted and filed with the Board of Tax Appeals in these matters; that Revenue Agent Donnally did not take the stand in said proceedings or give any testimony in the matter.

That at or about the time Agent Donnally made his investigation of the books and records of Chandis Securities Company in connection with the income tax return of Mrs. Marian Otis Chandler for



the year 1929 said Agent, as affiant verily believes, made an investigation of the income tax return of Chandis Securities Company for the year 1929; that the income tax return of Chandis Securities Company for the year 1929 contains a balance sheet of Chandis Securities Company for the year ending December 31, 1929, which balance sheet discloses outstanding capital stock of \$500,000.00 par value, and also discloses that the principal and accrued interest of said notes were then liabilities of the Chandis Securities Company.

That the books of the Chandis Securities Company contained appropriate entries to show that the transaction was not consummated in 1929; and that the stock issued for the principal and accrued interest of the notes and its old stock was not issued until 1930. [188]

That in view of the foregoing and the knowledge of Agent Donnally that the notes and the interest at the close of 1929 were outstanding liabilities of the Chandis Securities Company it was impossible for Agent Donnally to have relied upon the alleged statements which are herein denied.

Affiant states that it is not impossible without an examination of the books and records of the Chandis Securities Company from 1916 to 1930 to determine how much of the face amounts of the notes actually represents interest and how much principal, and that it is not impossible to determine how much interest Mrs. Marian Otis Chandler should have reported in her income tax return for 1930 in the event that she realized a taxable gain on account of

the exchange of her notes plus accrued interest for stock.

Affiant further denies that in order to determine the interest income of Mrs. Marian Otis Chandler for 1930 it is necessary to determine the value of the stock which she received in that year in exchange for the notes and accrued interest.

Affiant further states that it is not necessary in order to determine the value of said stock, to determine when the assets of the corporation behind the stock were acquired or the manner in which they were acquired, or from whom they were acquired.

Affiant further states that the Commissioner under date of December 13, 1929 issued his notice of final determination of additional tax liability of Mrs. Marian Otis Chandler for the years 1924, 1925 and 1926 wherein he added to her income the interest which had been accrued by the Chandis Securities Company for the years involved but which was not paid to her, his determination being upon the theory that she had constructively received said interest; that an appeal was taken to the United States Board of Tax Appeals from this determination.

Affiant further states that the Commissioner under date of July 21, 1931 issued his notice of final determination of additional tax liability of Mrs. Marian Otis Chandler for the year 1927 wherein he added to her income the interest which had been accrued by the Chandis Securities Company for the year involved but which was not paid to her,

his determination being upon the theory that she had constructively received said interest; that an appeal was taken to the United States Board of Tax Appeals from this determination. [189]

That thereafter and during the year 1932, pursuant to a stipulation of the Commissioner and representatives of Mrs. Marian Otis Chandler, the Board entered its orders of no deficiencies in the appeals referred to herein.

That the Commissioner by letter dated December 11, 1931 proposed a deficiency against Mrs. Marian Otis Chandler for the year 1928, the proposed deficiency being based upon the theory of constructive receipt by her of interest accrued by the Chandis Securities Company for that year on the notes held by her.

H. E. DOWNING

Subscribed and sworn to before me this 19 day of April, 1940.

[Seal]

C. O. DENNING

Notary Public in and for said County and State.

Received copy of the within this.....day of.....  
4/19/40.

SAMUEL TAYLOR

[Endorsed]: Filed Apr. 19, 1940. [190]

---

At a stated term, to wit: The February Term, A. D. 1940 of the District Court of the United States of America, within and for the Central Di-

vision of the Southern District of California, held at the Court Room thereof, in the City of Los Angeles on Monday the 22nd day of April in the year of our Lord one thousand nine hundred and forty.

Present:

The Honorable: Leon R. Yankwich, District Judge.

[Title of Cause.]

This cause coming on for hearing motion to quash order for production of records; Eugene Harpole and Samuel Taylor, Attorneys, Bureau of Internal Revenue, appearing as counsel for the plaintiff; and F. B. Yoakum, Jr., Esq., appearing as counsel for the Movants:

It is ordered that return date on order to produce documents be, and it hereby is, continued to May 6, 1940, at 10 o'clock A. M. [192]

---

[Title of District Court and Cause.]

AFFIDAVIT OF CHARLES W. DONNALLY

State of California

County of Los Angeles—ss.

Charles W. Donnally, being first duly sworn, deposes and says:

1. That he has read the affidavit of H. E. Downing, executed on the 19th day of April, 1940.

2. That he refers to and incorporates by reference the affidavit he (Charles W. Donnally) exe-

cuted on the 5th day of April, 1940, a copy of which is on file with the records of this proceeding, and that he re-affirms each and every statement made therein.

3. That the following excerpts are taken from the Official Report of Proceedings before the United States Board of Tax Appeals in the cases of Marian Otis Chandler, et al, v. Commissioner of Internal Revenue (which proceedings were held in Long Beach on the 5th of October, 1933, and which proceedings are referred to on page 2 of said affidavit of Mr. Downing): [193]

(Unless otherwise indicated, the questions are by Mr. Leming, counsel for the Commissioner, and the answers are by Mr. Downing.)

“Q. Do you know Revenue Agent Donally?

“A. Yes, I do.

“Q. This is Mr. Donally sitting here?

“A. Yes.

“Q. I will ask you if you did not inform him in October, 1931, that those notes were cancelled in 1929?      A. No, sir, I did not.

“Q. You did not so inform him?

“A. No.

“Q. Didn't you inform him at that time that they were in your possession in the year 1929?      A. I don't remember.

“Q. You would not want to say, then, that you did or did not so inform him?

“A. That they were in my possession?

“Q. Yes.



“A. I will say that I do not remember that I so informed him.

“Q. Were they in your possession at any time in the year 1929?      A. Yes.

“Q. They were?      A. They were.

“\*      \*      \*      \*      \*      \*

“Q. I will ask you, Mr. Downing, if you did not tell Revenue Agent Donnally in October, 1931, that exchange of stock for the indebtedness took place in the year 1929, and the notes were cancelled in the [194] year 1929, and the physical issuance of the stock certificates simply was a mechanical action which was delayed because you did not have the certificates printed?

“A. I have no recollection of that conversation with Mr. Donnally.

“Q. You have no recollection of telling him that the only reason the certificates were not issued in 1929 was because the printer had not printed them?      A. Why, no.

“Q. You did not tell him that?

“A. I have no recollection of telling him that. The stock certificates, if I may say so, are the same certificates which we had previously. The books will show that.

“Q. When did you have the certificates printed to take care of the issuance of the new stock?

“A. They were not printed. They are the same certificates.



“Q. Did they come out of the same stock certificate book? A. Absolutely, yes, sir.

“Q. Did you tell Mr. Donnally then that all that remained to do was the physical, mechanical issuance of those certificates?

“A. I have no such recollection.

“Q. Assuming I am mistaken, Mr. Downing, as to how he said that, I want to be clear with you on this point: Didn't you tell him that nothing remained to be done in 1929 but the mechanical issuance of the stock certificates?

[195]

“A. I have no recollection of telling him that.

“Q. Well, if Mr. Donnally says that is what you did tell him, what would you say to that?

“A. I probably should not say anything to it.

“Q. Because you have no recollection about it; is that right?

“A. I have no recollection of telling him any such thing.

“\* \* \* \* \*

“Q. (By Mr. Mackay) Mr. Downing, how do you account for the fact that the certificates in the same book are—that the certificates from 29 on are different than prior to 28?

“A. That was occasioned by the application of economy, and it was occasioned, or, rather, it was arrived at, as I say, by the addition of ciphers and the putting in of commas and periods.

“Q. (by Mr. Mackay) Do you call that an overprint?

“A. That is what we call an overprint, yes.

“Q. (by Mr. Mackay) Do you know when that was done?

“A. I cannot tell you definitely. It was just a part of the mechanics and I cannot tell you when it was done definitely.

“\* \* \* \* \*

“Cross Examination

“By Mr. Leming:

“Q. In other words, you had some new certificates printed; is that right?

“A. No, sir.

“Q. All right. What did you have printed? Let us use the word ‘print’. I assume there was a print by a printing press, was there not?

[196]

“A. There was not.

“Q. How was it done?

“A. Pen and ink.

“\* \* \* \* \*

“Q. I want to ask you again if you did not tell Mr. Donnally that it was not done in 1929, and that is the reason there was a delay in the mechanics of issuing these certificates?

“A. I have no recollection of that conversation with Mr. Donnally.

“Q. Do you know whether this was done in 1929 and 1930? A. I do not.

“Q. You would not undertake to say whether it was done in 1929 or 1930?

“A. I would not.

“Q. But it had to be done before you issued the certificates; is that right?

“A. Yes, sir.

“\* \* \* \* \*

“Mr. Leming: If your Honor please, in view of the questions I have asked the witness and his recollection does not permit him to answer, I am prepared to let Mr. Donnally testify to those conversations.

“I know the rule ordinarily is, so far as impeachment is concerned—you understand I am not trying to reflect any upon Mr. Downing, at least further than his recollection, and ordinarily I think that if a witness denies a statement it is proper to impeach him. It is not clear in my own mind about putting on a witness where the one on the stand merely does not remember whether there was such a conversation or not.

[197]

“I am stating my limited knowledge about that situation with this thought, if your Honor thinks the witness should not testify, I would not insist, but I should like to put him on the stand and let him say what that conversation was.

“The Member: There has been nothing by way of principal added to what was presented this morning. You are calling for the production of a witness for impeachment. There were certain matters testified to this morning, as to

which the witness claimed no recollection and as to which I gathered from questions propounded by the government counsel that Mr. Donnally had a different view. But government counsel did not choose to put him on this morning, and I wonder if he has not foregone the right.

“Mr. Leming: Well, I really think it rather material. I would not insist upon it one way or the other, but it occurs to me at this time, since the witness has such a total lack of recollection as to the time of printing that conversation might be material.

“The member: I think we should let the record stand as it is.

“Mr. Leming: That is agreeable.

“Mr. Mackay: That is all, your Honor.”

CHARLES W. DONNALLY

Subscribed and sworn to before me this 2 day of May, 1940.

[Seal]

T. G. ALBRIGHT

Notary Public in and for the County of Los Angeles, State of California.

My commission expires October 22, 1940.

Rec'd copy of within May 3, 1940.

A. CALDER MACKAY

By F. B. YOAKUM, JR.

[Endorsed]: Filed May 3, 1940. [198]

[Title of District Court and Cause.]

AFFIDAVIT OF WARNER E. WILLIAMS.

Warner E. Williams, being duly sworn, deposes and says:

Section 11 of the Revenue Act of 1928 provides that there shall be levied, collected and paid for each taxable year upon the net income of every individual certain taxes. Section 21 of the same Act defines net income as gross income computed under Section 22 less deductions allowed by Section 23. Section 22(a) provides, among other things, that any individual, required by law to file a return, receiving interest derived from any source whatever shall report it on the income tax return provided by law. Section 51 requires that every individual having a gross income of \$5,000.00 or over, regardless of the amount of his net income, shall make, under oath, a return, stating specifically the items of his gross income and the deductions and credits allowed.

Affiant is familiar with the 1930 income tax return of Marian Otis Chandler. A true and correct photostatic copy of said return is incorporated as Exhibit 7 to the Affidavit heretofore [200] executed by affiant on April 6, 1940, and on file in this proceeding and is herein incorporated by reference in this Affidavit.

In the year 1930 Marian Otis Chandler received interest in the approximate amount of \$661,000.00 from the Chandis Securities Company in the form of stock of that corporation. As a result of the receipt of such interest she became liable for a tax



of a considerable sum in addition to the tax liability revealed in her return for the year 1930. She failed to report any part of this interest income in the income tax return filed by her for that year, nor did she make any disclosure of any sort in that income tax return that any such item had been received. Representatives of the Bureau of Internal Revenue, including the affiant, have a strong suspicion that the taxpayer's failure to report or disclose this interest income item was due to a deliberate, willful and fraudulent attempt to evade the tax thereon. The definitely known facts giving rise to this suspicion of fraud are set forth in the affidavits, and exhibits thereto, heretofore filed on behalf of the petitioner in this proceeding. It is necessary to examine the books and records of the Chandis Securities Company in order to determine definitely whether or not Marian Otis Chandler committed a fraud in connection with her 1930 income tax return.

WARNER E. WILLIAMS

Subscribed and sworn to before me this 9 day of May, 1940.

[Seal]

T. G. ALBRIGHT,

Notary Public in and for the County of Los Angeles, State of California.

My commission expires October 22, 1940.

Rec'd copies of within this 10th day of May, 1940.

F. B. YOAKUM, JR.,

A. CALDER MACKAY,

By F. B. YOAKUM, JR.

[Endorsed]: Filed May 10, 1940. [201]



[Title of District Court and Cause.]

COUNTER-AFFIDAVIT OF H. E. DOWNING

State of California,

County of Los Angeles—ss.

H. E. Downing, being duly sworn, deposes and says:

I have carefully read the affidavit of Warner E. Williams dated May 9, 1940. It is not true that in the year 1930 Marian Otis Chandler received interest in the approximate amount of \$661,000.00 from Chandis Securities Company. It is true that during said year Marian Otis Chandler received stock of said corporation which was given by said corporation and accepted by Marian Otis Chandler in satisfaction of accrued interest owing from the corporation to Marian Otis Chandler in the approximate amount of \$661,000.00, in the manner more particularly described in my affidavit of March 19, 1940, said affidavit being made a part of the Notice of Motion to Quash.

It is not true that as a result of the receipt of said stock Marian Otis Chandler became liable for a tax of a considerable or any sum in addition to the tax liability revealed [203] in her return for the year 1930. It is not true that Marian Otis Chandler failed to report any part of her income in the income tax return filed by her for the year 1930. In this connection affiant avers that Marian Otis Chandler was not required to make any disclosure in her income tax return for the year 1930

that she had accepted stock of Chandis Securities Company in exchange for the principal and accrued interest thereon owing by Chandis Securities Company to Marian Otis Chandler.

It is not true that it is necessary to examine the books and/or records of Chandis Securities Company in order to determine whether Marian Otis Chandler committed a fraud in connection with her 1930 income tax return.

H. E. DOWNING

Subscribed and sworn to before me this 14 day of May, 1940.

[Notarial Seal]

C. O. DENNING,

Notary Public in and for the County of Los Angeles, State of California.

Receipt of a copy of the within is hereby admitted this 14th day of May, 1940.

EUGENE HARPOLE,

Attorney for Petitioner.

[Endorsed]: Filed May 14, 1940. [204]

---

[Title of District Court and Cause.]

### MINUTE ORDER

The Motion of the Respondents to quash the Order for Production of Records, dated March 5, 1940, heretofore submitted, is now decided as follows.

The Motion is granted. The Order is quashed and annulled without prejudice, however, to a new ap-

[Title of District Court and Cause.]

COUNTER-AFFIDAVIT OF H. E. DOWNING

State of California,

County of Los Angeles—ss.

H. E. Downing, being duly sworn, deposes and says:

I have carefully read the affidavit of Warner E. Williams dated May 9, 1940. It is not true that in the year 1930 Marian Otis Chandler received interest in the approximate amount of \$661,000.00 from Chandis Securities Company. It is true that during said year Marian Otis Chandler received stock of said corporation which was given by said corporation and accepted by Marian Otis Chandler in satisfaction of accrued interest owing from the corporation to Marian Otis Chandler in the approximate amount of \$661,000.00, in the manner more particularly described in my affidavit of March 19, 1940, said affidavit being made a part of the Notice of Motion to Quash.

It is not true that as a result of the receipt of said stock Marian Otis Chandler became liable for a tax of a considerable or any sum in addition to the tax liability revealed [203] in her return for the year 1930. It is not true that Marian Otis Chandler failed to report any part of her income in the income tax return filed by her for the year 1930. In this connection affiant avers that Marian Otis Chandler was not required to make any disclosure in her income tax return for the year 1930

that she had accepted stock of Chandis Securities Company in exchange for the principal and accrued interest thereon owing by Chandis Securities Company to Marian Otis Chandler.

It is not true that it is necessary to examine the books and/or records of Chandis Securities Company in order to determine whether Marian Otis Chandler committed a fraud in connection with her 1930 income tax return.

H. E. DOWNING

Subscribed and sworn to before me this 14 day of May, 1940.

[Notarial Seal] C. O. DENNING,  
Notary Public in and for the County of Los Angeles, State of California.

Receipt of a copy of the within is hereby admitted this 14th day of May, 1940.

EUGENE HARPOLE,  
Attorney for Petitioner.

[Endorsed]: Filed May 14, 1940. [204]

---

[Title of District Court and Cause.]

### MINUTE ORDER

The Motion of the Respondents to quash the Order for Production of Records, dated March 5, 1940, heretofore submitted, is now decided as follows.

The Motion is granted. The Order is quashed and annulled without prejudice, however, to a new ap-

plication upon a new petition and a proper showing limited in point of time and "to matters required to be included in the return" of Marian Otis Chandler, with special reference to the particular transaction which is under investigation.

Dated this 10th day of June, 1940.

Opinion filed. [206]

---

[Title of District Court and Cause.]

MEMORANDUM OPINION

Appearances:

For the Petitioner:

BEN HARRISON,

United States Attorney.

E. H. MITCHELL,

Asst. U. S. Attorney.

EUGENE HARPOLE,

Special Attorney,

Bureau of Internal Revenue.

SAMUEL TAYLOR,

Special Attorney,

Bureau of Internal Revenue.

For the Respondents:

COSGROVE & O'NEIL,

F. B. YOAKUM, JR.,

A. CALDER MACKAY,

Los Angeles, California. [207]

Yankwich, District Judge:

On March 5, 1940, the petitioner, George D. Martin, as Internal Revenue Agent, in charge of the Sixth Internal Revenue District of California, filed



a petition for production of records, under Section 3614 of the Internal Revenue Code.

The petition recited these facts:

Chandis Securities Corporation is a California corporation. E. H. Downing is its Assistant Secretary in charge of its records. Marian Otis Chandler is the Secretary of the Corporation and the maker of an individual federal income tax return for the year 1930, which is under investigation.

The Respondents have in their custody records bearing upon matters required to be included in Marian Otis Chandler's tax return for the year 1930.

On November 30, 1939, the petitioner served a summons upon the respondents requiring them to appear before him on the 11th day of December, 1939, to give testimony relating to the tax liability of Marian Otis Chandler for the named year and to bring with them the following papers:

“Records of Chandis Securities Company for the years 1916 to 1930, inclusive, as follows: Minute Books; capital stock certificate books, ledgers and journals; all accounting books and records including general ledgers, journals, cash books, auxiliary registers and ledgers, together with all vouchers, correspondence and other written data supporting the original entries in said accounting books; all promissory notes of Chandis Securities Company issued, assigned, endorsed, or otherwise transferred during said years to Marian Otis



*corporation\** for the years 1916 to 1930, when the only issue involved in the tax liability of one of its stockholders, Marian Otis Chandler, for the year 1930, by reason of a single transaction, *long known to the Government* and to the agents of the Bureau of Internal Revenue.

There is no showing that such records, *over this long period of years*, “bear upon the matters required to be included in the return” (Internal Revenue Code, Sec. 3614) of Marian Otis Chandler for the year 1930.

*The agents are not the sole judges* as to the scope of the examination.

They must satisfy the Court that what they seek may be *actually needed*. Otherwise, they would be assuming inquisitorial powers beyond the scope of the statute. [210]

The grounds just given embody the principles governing cases of this character. (McDonough v. Lambert, 1 Cir., 1938, 94 F(2) 838, 841; McMann v. Securities & Exchange Com., 2 Cir., 1937, 87 F(2) 377; 379; Newfield v. Ryan, 5 Cir., 1937, 91 F(2) 700, 703; Zimmerman v. Wilson, 3 Cir., 1939, 105 F(2) 583, 585; In re Keegan, D. C. N. Y. 1937, 18 Fed. Sup. 746; In re Andrews Tax Liability, D. C. Md., 1937, 18 Fed. Sup. 804, 807; see also, Miles v. United Founders Corp., D. C. N. J., 1933, 5 Fed. Sup. 413, *involving an exchange of stock* where the order was *properly* limited to

“all books, papers, and other memoranda *pertaining to the exchange of stock* of American

---

\*Italics in this Opinion are by the Court.

Founders Corporation (a Maryland corporation) for that of United Founders Corporation (a Maryland corporation).” (Italics are by the Court)

The fact that the corporation is a “family corporation” does not subject it to different rules.

Its existence as a legal entity over a long period of years is not challenged.

Nor is it charged that it was organized fraudulently or for the purpose of tax evasion.

For the foregoing reasons, the Motion of the Respondents to quash the order for production of records is hereby granted. The order is quashed and annulled without prejudice, however, to a new application upon a new petition and a proper showing limited in point of time and “to matters required to be included in the return” of Marian Otis Chandler, with special reference to the particular transaction which is under investigation.

Dated this 10th day of June, 1940.

LEON R. YANKWICH,  
United States District Judge.

[Endorsed]: Filed Jun. 10, 1940. [211]

---

[Title of District Court and Cause.]

NOTICE OF APPEAL TO THE CIRCUIT  
COURT OF APPEALS

Notice is hereby given that George D. Martin, as Internal Revenue Agent in Charge for the Sixth

United States Internal Revenue Collection District of California, the petitioner in the above entitled proceeding, hereby appeals to the Circuit Court of Appeals for the Ninth Circuit from the order of the United States District Court for the Southern District of California granting the motion of the respondents in the above entitled proceeding to quash the order for production of records dated March 5, 1940. Said order granting the motion to quash was made and entered in the above entitled action through Honorable Leon R. Yankwich, Judge of the above entitled Court, on the 10th day of June, 1940.

WM. FLEET PALMER,

U. S. Attorney,

E. H. MITCHELL,

Asst. U. S. Attorney,

EUGENE HARPOLE,

Special Attorney, Bureau of  
Internal Revenue,

SAM TAYLOR,

Special Attorney, Bureau of  
Internal Revenue.

By SAMUEL TAYLOR,

Attorneys for Appellant.

Address: New Post Office and Courthouse Bldg.,  
Los Angeles, California.

Copy mailed Sept. 6, 1940 to A. Calder Mackay,

T. B. Cosgrove, F. J. O'Neil and F. B. Yoakum,  
Jr., attys. for respondents.

R. S. ZIMMERMAN,

Clerk.

By E. L. S.,

Deputy Clerk.

[Endorsed]: Filed Sep. 6, 1940. [213]

---

[Title of District Court and Cause.]

ORDER EXTENDING TIME TO DOCKET  
CAUSE ON APPEAL AND FOR PREPA-  
RATION OF RECORD ON APPEAL

Good cause appearing therefor, It Is Hereby Or-  
dered that the time within which to file the record  
and docket the above-entitled cause in the United  
States Circuit Court of Appeals for the Ninth Cir-  
cuit be, and the same hereby, is extended to and  
including December 5, 1940.

Dated this 4th day of Oct., 1940.

PAUL J. McCORMICK,

United States District Judge.

[Endorsed]: Filed Oct. 4, 1940. [215]

[Title of District Court and Cause.]

## STATEMENT OF POINTS ON APPEAL

To Chandis Securities Company and H. E. Downing, Respondents and Appellees, and to their Attorneys Cosgrove & O'Neil, F. B. Yoakum, Jr., A. Calder Mackay:

You and each of you will please take Notice under the provisions of Rule 75 (a) of the Rules of Civil Procedure for the United States District Courts that the Petitioner and Appellant intends to rely upon the following points in the appeal of the above-entitled case:

### I.

The Court erred in quashing and annulling its Order made on March 5, 1940, for the production of records.

### II.

The Court erred in sustaining Respondent's Motion to Quash the Order of the Court made on March 5, 1940, for the production of records.

### III.

The Court erred in permitting the respondents, [216] whose tax liability is not before the Court in this proceeding, to raise any question as to the necessity for the petitioning Revenue Agent to make a further examination or to examine the books of the Chandis Securities Company, or to require the testimony of H. E. Downing, the assistant secretary of Chandis Securities Company,

in connection with the income tax liability of Marion Otis Chandler for the calendar year 1930.

#### IV.

The Court erred in permitting the respondents to raise any question in this proceeding as to whether or not Marion Otis Chandler, a party not before the Court, was actually liable for an additional income tax for the calendar year 1930.

#### V.

The Court erred in permitting the respondents to raise the question as to whether the books and records sought by the Revenue Agent were actually needed in order to determine the tax liability of Marion Otis Chandler, a party not before the Court, for the taxable year 1930.

#### VI.

The Court erred in holding that the petition for the production of records and the affidavits and exhibits filed in support thereof did not allege facts sufficient to show reasonable grounds for suspicion of fraud or probable cause for the examination of the books and records requested to ascertain if there had been fraud in connection with the income tax return filed by Marion Otis Chandler for the calendar year 1930. [217]

#### VII.

The Court erred in holding that the Revenue Agent must allege facts showing that fraud existed



in connection with the filing of the 1930 Federal income tax return of Marion Otis Chandler in order to obtain the books and records of Chandis Securities Company for the purpose of ascertaining whether facts showing such fraud were to be found in said books and records.

### VIII.

The Court erred in holding that the order for production of books and records of the Chandis Securities Company for the purpose of ascertaining whether Marion Otis Chandler committed a fraud against the revenue in the filing of her 1930 income tax return was insufficiently limited in time and in the number and scope of books and records requested.

Dated: This 31st day of December, 1940.

WM. FLEET PALMER,  
United States Attorney.

E. H. MITCHELL,  
Assistant United States Atty.

EUGENE HARPOLE,  
Special Attorney, Bureau of  
Internal Revenue.

SAMUEL TAYLOR,  
Special Attorney, Bureau of  
Internal Revenue.

By: EUGENE HARPOLE,  
Attorneys for Appellant.

Receipt of a copy of the foregoing Statement of Points is acknowledged this ..... day of ....., 1941.

..... [218]

.....

.....

.....

.....

By: .....

Attorneys for Appellees.

Received copy of the within Statement, etc. this 31st day of Dec. 1940.

F. B. YOAKUM, JR.,

A. CALDER MACKAY,

Attorneys for Respondents.

[Endorsed]: Filed Dec. 31, 1940. [219]

---

[Title of District Court and Cause.]

CERTIFICATE OF CLERK

I, R. S. Zimmerman, Clerk of the District Court of the United States for the Southern District of California, do hereby certify the foregoing pages, numbered from 1 to 226, inclusive, contain full, true and correct copies of Petition for Production of Records with Exhibits A to D; Order for Production of Records; Order Continuing Return Date of Order; Order Continuing Return Date of Order; Notice of Motion to Quash Order for Production

of Records with Affidavit of H. E. Downing and Exhibits 1 to 8; Affidavits of Charles W. Donnally; Affidavit of Warner E. Williams and Exhibits 1 to 9; Order Continuing Hearing to April 22, 1940; Affidavit of H. E. Downing; Order Continuing Hearing to May 6, 1940; Affidavit of Charles W. Donnally; Affidavit of Warner E. Williams; Counter Affidavit of H. E. Downing; Order of June 10, 1940; Memorandum Opinion; Notice of Appeal; Appellant's Designation of Record on Appeal; Order Extending Time to Docket Record on Appeal; Statement of Points on Appeal; Appellee's Designation of Additional Record; which together with the original exhibits\* transmitted herewith constitute the record on appeal to the United States Circuit Court of Appeals for the Ninth Circuit.

Witness my hand and the Seal of the District Court of the United States for the Southern District of California, this 29th day of January, A. D. 1941.

[Seal]

R. S. ZIMMERMAN,

Clerk,

By EDMUND L. SMITH,

Deputy.

---

\*[Printer's Note: Respondent's Exhibit A and Petitioner's and Appellant's Exhibit 1 are set out at pages 165 to 256 following.]

RESPONDENT'S EXHIBIT A

United States Board of Tax Appeals

Docket No. 67468

MARIAN OTIS CHANDLER,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

[Excerpts from Transcript of Record in the Above  
Entitled Case.]

[Title of Court and Cause.]

FIRST AMENDED PETITION.

Comes now the Petitioner and having first obtained leave of the Board files this as her First Amended Petition appealing from the determination of the Respondent set forth in his deficiency letter dated July 1, 1932, symbols IT:AR:E-1, NF-60D, and as the basis of this proceeding alleges as follows:

(1) The Petitioner is an individual residing in the City of Los Angeles, State of California, whose business address is Times Building, Los Angeles, California.

(2) The notice of deficiency, copy of which is attached to the original petition, was mailed to the Petitioner on or about July 1, 1932.

(3) The taxes in controversy are income taxes for the calendar year 1929 and in the sum of \$163,175.03.

(4) The determination of tax set forth in the said notice of deficiency is based upon the following errors:

(a) The Respondent has erroneously increased net income by the sum of \$661,369.56.

(b) Respondent has erroneously and illegally determined that Petitioner realized income in the sum of \$661,369.56 in a transaction whereby Petitioner exchanged certain notes owned by her and executed by the Chandis Securities Company, a corporation, together with accrued interest due upon said notes for stock in the said Chandis Securities Company and failed to treat the transaction as a non-taxable transaction within the meaning of the provisions of the Revenue Act of 1928.

(c) Respondent has erroneously and illegally determined that certain stock in the Chandis Securities Company received by the Petitioner in exchange for certain notes of the said Company owned by her together with accrued interest thereon had a market value equal to the par value of the stock so received. The stock did not have a market value in excess of 50 per cent of its par value.

(d) The alleged gain or income which the Respondent is attempting to tax for the year 1929, does not constitute taxable income within the meaning of the provisions of the Revenue Act of 1928, and/or the Sixteenth Amendment to the Constitution of the United States.

(e) The Respondent's action in determining that the gain, if any, realized by Petitioner on account of the surrender by her of promissory notes for stock in the Chandis Securities Company was erroneous and illegal since Petitioner did not, during the year 1929, surrender her notes or receive said stock.

(5) The facts upon which the Petitioner relies as a basis of this proceeding are as follows:

(a) Petitioner's books of account have at all times been kept upon the cash receipts and disbursement basis and her income tax return for the year 1929 was prepared and filed on said basis.

(b) Petitioner owned certain notes executed by the Chandis Securities Company, a corporation, aggregating in principal the sum of \$810,687.06. Interest had accrued upon Petitioner's interest in said notes to December 31, 1929, aggregating the sum of \$661,369.56.

(1) The total of the notes executed by the Chandis Securities Company, a corporation, together with the accrued interest thereon of which the sum set forth in (b) above represents a part owned by the Petitioner and her children is as follows:



*George D. Martin vs.*

	Note Principal	Accrued Interest to Dec. 31, 1929	Total
Marian Otis Chandler (Petitioner).....	\$ 810,687.06	\$ 661,369.56	\$1,472,056.62
Franceska Chandler Kirkpatrick.....	179,490.04	148,525.02	328,015.06
May Chandler Goodan.....	179,490.04	148,525.01	328,015.05
Helen Chandler.....	130,474.68	103,866.62	234,341.30
Philip Chandler.....	130,474.68	103,866.62	234,341.30
Ruth Chandler Williamson.....	130,474.69	103,866.62	234,341.31
Harrison Gray Chandler.....	130,474.68	103,866.62	234,341.30
Constance Chandler.....	130,474.70	103,866.63	234,341.33
Norman Chandler.....	116,508.03	99,305.58	215,813.61
Total.....	\$1,938,548.60	\$1,577,058.28	\$3,515,606.88

(2) The Chandis Securities Company was incorporated during the year 1916 with an authorized capital stock of \$500,000.00, divided into 500 shares of a par value of \$1,000.00 each, which stock, prior to the Company acquiring the notes hereinbefore mentioned in the manner hereinafter set forth, was issued as follows:

	Number of Shares
Marian Otis Chandler (Petitioner).....	200
Franceska Chandler Kirkpatrick.....	35
May Chandler Goodan.....	35
Helen Chandler .....	35
Philip Chandler .....	35
Ruth Chandler Williamson.....	35
Harrison Gray Chandler.....	35
Constance Chandler .....	35
Norman Chandler .....	35
Harry Chandler .....	20
	<hr/> 500

(3) The Chandis Securities Company realizing its inability to pay the notes and accrued interest mentioned in paragraph (b) (1) above, secured the consent of the noteholders to a plan whereby the said company would increase its capital stock to five million dollars, divided into 50,000 shares of the par value of \$100.00 each and thereafter acquire from the said noteholders their notes and the accrued interest thereon by the issuance of one share of its stock of the par value of \$100.00 per share for each \$100.00 of note principal, and accrued interest.

(4) The Chandis Securities Company in fur-

therance of the above plan, increased its capital stock to five million dollars, divided into 50,000 shares of the par value of \$100.00 each and issued to the Petitioner and the other noteholders, one share of its stock (par value \$100.00) for each \$100.00 of note principal and accrued interest.

(5) The Chandis Securities Company during the year 1930 issued to its stockholders 10 shares of the new stock of the par value of \$100.00 per share for each share of the old stock having a par value of \$1,000.00.

(6) The stock of the Chandis Securities Company was not issued during the year 1929, neither was it received by Petitioner during said year. Petitioner did not surrender her promissory notes, nor did she receive anything therefor until after the close of the year 1929. Consequently no part of the sum of \$661,369.56 constitutes taxable income within the meaning of the provisions of the Revenue Act of 1928 or the Sixteenth Amendment to the Constitution of the United States of America.

(7) In completion of the foregoing plan, the stock of the Chandis Securities Company was issued for note principal and accrued interest and in exchange for the old stock (with fractional shares being paid for in cash) and immediately thereafter the stock was issued and outstanding as follows:

Name	Notes and Interest to Dec. 31, 1929	Shares in Exchange for Notes	Cash for Frac- tional Share	Total	Issue of Stock for Stock	Total Shares Out- standing
Marian Otis Chandler.....	\$1,472,056.62	14,720	\$ 43.38	14,721	2,000	16,721
Franceska Chandler Kirkpatrick.....	328,015.06	3,280	84.94	2,344	350	3,631
May Chandler Goodan.....	328,015.05	3,280	84.95	2,344	350	3,631
Helen Chandler .....	234,341.30	2,343	58.70	2,344	350	2,694
Philip Chandler .....	234,341.30	2,343	58.70	2,344	350	2,694
Ruth Chandler Williamson.....	234,341.31	2,343	58.69	2,344	350	2,694
Harrison Gray Chandler.....	234,341.30	2,343	58.70	2,344	350	2,694
Constance Chandler .....	234,341.33	2,343	58.67	2,344	350	2,694
Norman Chandler .....	215,813.61	2,158	86.39	2,159	350	2,509
Harry Chandler .....					200	200
	<u>\$3,515,606.88</u>	<u>35,153</u>	<u>\$593.12</u>	<u>33,288</u>	<u>5,000</u>	<u>40,162</u>

(c) Notwithstanding the foregoing, the Respondent has treated the transaction whereby Petitioner acquired stock in the Chandis Securities Company for her notes and accrued interest thereon as a payment of the accrued interest and has erroneously and illegally included in Petitioner's net taxable income for the year 1929 on this account the sum of \$661,369.56, contrary to the provisions of the Revenue Act of 1928 and the Sixteenth Amendment to the Constitution of the United States of America.

(1) The 14,720 shares of stock of the Chandis Securities Company received by Petitioner during the year 1930 on account of her ownership in the notes executed by the said Chandis Securities Company did not have a fair market value at the date received in excess of \$736,000.00.

(2) Petitioner's cost basis in the notes equals the principal of the said notes and is \$810,687.06,

Wherefore, Petitioner prays that this Board may hear and redetermine the deficiency in accordance with the foregoing. Petitioner prays for such other and further relief as may be deemed meet and proper in the premises.

GEORGE M. THOMPSON

JOHN T. RILEY

MARSHALL D. HALL

Counsel for Petitioner,  
505 Title Insurance Building,  
Los Angeles, California.

A. CALDER MACKAY

Attorney for Petitioner,  
1104 Pacific Mutual Bldg.,  
Los Angeles, California.



State of California

County of Los Angeles—ss.

Marian Otis Chandler being duly sworn, says that she is the Petitioner above named; that she has read the foregoing First Amended Petition or had the same read to her and is familiar with the statements therein contained; and that the facts therein stated are true except such facts as are recited to be upon information and belief and those facts she believes to be true.

(Signed) MARIAN OTIS CHANDLER

Subscribed and sworn to before me this 28 day of August, 1933.

[Seal] (Signed) C. O. DENNING

Notary Public in and for the County of Los Angeles, State of California.

[Endorsed]: Filed Sept. 25, 1933.

---

[Title of Court and Cause.]

### ANSWER TO AMENDED PETITION.

Comes now the Commissioner of Internal Revenue, by his attorney, E. Barrett Prettyman, General Counsel, Bureau of Internal Revenue and for answer to the amended petition filed by the above-named taxpayer admits and denies as follows, to-wit:

1, 2, 3. Admits the allegations contained in paragraphs 1, 2, and 3 of the amended petition.



4. Denies the allegations of error contained in paragraphs 4(a) to (e), inclusive, of the amended petition.

5(a). Admits the allegations contained in paragraph 5(a) of the amended petition.

5(b). Admits that petitioner owned certain notes executed by the Chandis Securities Company, a corporation, aggregating in principal the sum of \$810,687.06 and interest had accrued upon said notes to December 31, 1929, aggregating the sum of \$661,369.56, but denies the remaining allegations of paragraph 5(b) of the amended petition.

5(b)(1). Admits the allegations contained in paragraph 5(b)(1) of the amended petition.

5(b)(2). Admits the Chandis Securities Company was incorporated during the year 1916 with an authorized capital stock of \$500,000.00, divided into 500 shares of a par value of \$1,000.00 each, but denies the remaining allegations of paragraph 5(b)(2) of the amended petition.

5(b)(3). Admits the Chandis Securities Company secured the consent of the noteholders to a plan whereby the said company would increase its capital stock to five million dollars, divided into 50,000 shares of the par value of \$100.00 each and thereafter acquire from the said noteholders their notes and the accrued interest thereon by the issuance of one share of its stock of the par value of \$100.00 per share for each \$100.00 of note principal, and accrued interest. Denies all other allegations

contained in paragraph 5(b)(3) of the amended petition.

5(b)(4). Admits that the Chandis Securities Company increased its capital stock to five million dollars, divided into 50,000 shares of the par value of \$100.00 each and issued to the petitioner and the other noteholders, one share of its stock (par value \$100.00) for each \$100.00 of note principal and accrued interest. Denies all other allegations set forth in paragraph 5(b)(4) of the amended petition.

5(b)(5). Denies the allegations contained in paragraph 5(b)(5) of the amended petition.

6. Denies the allegations contained in paragraph 6 of the amended petition.

7. Denies the allegations contained in paragraph 7 of the amended petition.

7(c). Admits the respondent has treated the transaction whereby petitioner acquired stock in the Chandis Securities Company for her notes and accrued interest thereon as a payment of the accrued interest and included in petitioner's net taxable income for the year 1929 on this account the sum of \$661,369.56, but denies the remaining allegations set forth in paragraph 7(c) of the amended petition.

7(c)(1). Denies the allegations contained in paragraph 7(c)(1) of the amended petition.

7(c)(2). Denies the allegations contained in paragraph 7(c)(2) of the amended petition.

Denies generally and specifically each and every allegation set forth in the amended petition not

hereinbefore admitted, qualified or denied.

Wherefore, it is prayed that the appeal be denied.

E. BARRETT PRETTYMAN

General Counsel,

Bureau of Internal Revenue.

Of Counsel:

MASON B. LEMING,

Special Attorney,

Bureau of Internal Revenue.

---

In the United States Circuit Court of Appeals for  
the Ninth Circuit.

[Title of Cause.]

### STATEMENT OF EVIDENCE

The following is a statement of evidence in narrative form in the above-entitled cause. This cause came on for hearing before the Honorable Ernest H. Van Fossan, Member of the United States Board of Tax Appeals on October 5, 1933, at Los Angeles, California. A. Calder Mackay and George M. Thompson appeared for the petitioner and Mason B. Leming (E. Barrett Prettyman, General Counsel, Bureau of Internal Revenue) appeared for the respondent.

Before any testimony was taken there was offered and received, on behalf of both parties, an agreed stipulation of facts with the annexed exhibits referred to therein. Thereupon, counsel for

the petitioner and counsel for respondent, in open court, stipulated that the value of the stock of the Chandis Securities Company was \$60.00 per share at any time material to these proceedings.

HORACE E. DOWNING,

being called as a witness by and on behalf of the petitioner, after being duly sworn, testified on direct examination as follows:

I am now and was in 1929 and for some years prior to that time assistant secretary of the Chandis Securities Company. As assistant secretary I was in charge of the stock certificate books of the Chandis Securities Company showing just who owned the stock of that company.

The stock of the Chandis Securities Co., prior to 1929 was owned by Mr. Harry Chandler, Mrs. Marian Otis Chandler, Mrs. Franceska Chandler Kirkpatrick, Mrs. May Chandler Goodan, Mrs. Ruth Chandler Williamson, Mr. Norman Chandler, Mr. Harrison G. Chandler, Helen Chandler and Phillip Chandler. As of December 31, 1929, each of the stockholders owned the following number of shares:

Marian Otis Chandler	200 shares
Franceska Chandler Kirkpatrick	35   “
May Goodan	35   “
Ruth Williamson	35   “
Norman Chandler	35   “
Harrison Chandler	35   “
Phillip Chandler	35   “

(Testimony of Horace E. Downing.)

Helen Chandler	35	“
Harry Chandler	20	“
Constance Chandler	35	“

The same condition prevailed with reference to share holdings of the old stock prior to December, 1929.

Continuing the witness testified as follows:

Q. I see. Now, who handled the issuance of the—I will withdraw that.

It is stipulated here, Mr. Downing, that the Chandis Securities Company made application for permit to increase its capitalization to \$5,000,000, and that new shares of stock were issued. I will ask you if you handled, you as assistant secretary of that corporation, the issuance of the new stock?

A. I did.

Q. And as assistant secretary of that corporation did you also—well, I will withdraw that.

It is further stipulated that this stock was issued, the new stock was issued for notes and interest, as well as some of the old stock. I will ask you if you handled the details with respect to receiving the notes and seeing that they were cancelled?

A. I did.

Q. Do you know, Mr. Downing, just when the notes that have been stipulated here and which were held by Mrs. Chandler and the other petitioners were cancelled?

A. Yes. They were cancelled on January 2, 1930.



(Testimony of Horace E. Downing.)

Q. I hand you herewith a bunch of notes, or a number of notes which appear to be pretty well plastered with documentary stamps cancelled, and I will ask you if these are the notes that you refer to when you say they were cancelled on January 2, 1930?

(The documents in question were passed to Mr. Downing.)

A. Yes.

Q. I notice on these notes, Mr. Downing, either a stamp or typewritten diagonally across here some writing. I will ask you if you know how that got on there and to tell the court just what that is.

A. That was a cancellation of the notes and was written in my office preparatory for the signature of the note owners.

Q. You say this was written in your office preparatory to that?

A. It was.

Q. And it was written under your direction?

A. Yes.

Q. It is stipulated that there were a number of notes which were cancelled at that time, and I will ask you if all of the notes at that time were cancelled on January 2, 1930?

A. They were.

Q. I will ask you whether or not this same writing on the face of it, that you have here described, was contained on all the notes?

A. It was.

Q. At that time?

A. It was.

Q. I will ask you to examine these notes and tell



(Testimony of Horace E. Downing.)

whether or not the writing is on them all, the writing showing the cancellation?      A. It is.

Q. I notice as part of that writing there are names. I have in my hand a note of Marian Otis Chandler. I will ask you if that is her signature that you see written on it.

(The document in question was passed to Mr. Downing)

A. It is.

Q. Did you see her sign it?      A. Yes.

Q. On these other notes I see the signatures of the various petitioners. Do you identify those signatures as the signatures of the various petitioners and the people that you have heretofore referred to as the stockholders of the Chandis Securities Company?      A. I do.

Mr. Mackay: If your Honor please, there are numerous notes here. I should like to offer them in evidence at this particular time. I do not know whether it would be necessary to offer them all or not. They are all the same, and I would think that perhaps one would be sufficient, since they have been identified as all being the same. If counsel will not agree, we can offer all those notes. It is merely for the purpose of showing these notes were cancelled on January 2, 1930.

The Member: You have photostatic copies of them?

Mr. Mackay: Yes, your Honor.

The Member: Of all of them?

(Testimony of Horace E. Downing.)

Mr. Mackay: Well, I think I have. I have photostat copies of most of them, anyhow.

Mr. Leming: We have entered into a stipulation of fact which sets out the consideration for the issuance of these notes and what has happened to them in the way of payment of interest, and accrual of interest, the fact that in the year 1929 the stockholders proposed to accept stock for their indebtedness, the directors approved that proposal, subject to the approval of the Corporation Commissioner of the State of California, and the Corporation Commissioner approved it, all of which transpired in the year 1929.

I should like to ask counsel now the purpose in offering these cancelled notes.

Mr. Mackay: If your Honor please, in my opening statement I said that there was an issue here that we were contending that even though it is not held to be a reorganization, tax free, that nevertheless it is our contention that these petitioners never received anything during the year 1929.

My only purpose in offering these is to show that the notes were cancelled on January 2, 1930.

The Member: You are relying on an inference being drawn from that that they did not receive payment until 1930?

Mr. Mackay: Yes, I am following that up, if your Honor please. That is right.

Mr. Leming: May I examine the witness with respect to the notes?

(Testimony of Horace E. Downing.)

Mr. Mackay: Now, of course, if your Honor please, I want to clear up the record here. We do not take the position here, or the taxpayers do not, that there was any offer. We have put in all these documents showing the minutes of the meeting of the Board of Directors, and the application to the Corporation Commissioner and the permit issued, but we are not admitting for one minute that there was any offer and acceptance happening in 1929.

The Member: You are just stating the facts and submitting to the Board the question?

Mr. Leming: Mr. Downing, have you checked these notes to see that they are, in the aggregate, the same amount as mentioned in the stipulation of facts in the record?

The Witness: No, I have not; I do not know.

Mr. Leming: Will counsel state whether or not these conform to the stipulation of fact in aggregate amount?

Mr. Mackay: I do not know, Mr. Leming.

The Member: You are not offering it in proof of the amount, are you?

Mr. Mackay: No, because that was eliminated. All I wanted here—there may be some more. If you want me to get them all, I will get them.

Mr. Leming: I should think they would all be essential.

Mr. Mackay: The only way I can do it is to take a recess and check up. They may all be here. I do not know.

(Testimony of Horace E. Downing.)

Could we take a recess while we check this up, if your Honor please?

It is just a question of checking up the amount.

The Member: Very well.

(At this point a recess was taken, after which proceedings were resumed as follows).

The Member: Proceed.

By Mr. Mackay:

Q. Mr. Downing, I have in my hand now the notes that you have identified as the notes of Mrs. Chandler and the other petitioners here, and during the recess have you checked these notes to determine whether or not these are all the notes that were cancelled and for which stock was issued?

A. I have.

Q. All of these notes are of the same general form, are they not?           A. Yes.

Q. Identical, with the exception of name and amount?           A. Yes.

Q. You have examined all the notes and you find they contain a cancellation dated January 2, 1930?           A. They do.

Q. Is it your testimony that these notes were cancelled on the date they purport to be cancelled?

A. They were.

Q. And they were cancelled by you?

A. They were.

Mr. Mackay: If your Honor please, at this time we offer in evidence these notes, with the right to withdraw or substitute photostat copies thereof.

(Testimony of Horace E. Downing.)

Mr. Leming: I believe your Honor gave me permission to examine the witness before they are ruled upon as to their admissibility?

The Member: Do you feel that is essential in determining the competency of the exhibit? Can't you leave that until cross examination?

Mr. Leming: If your Honor please, this witness has, as a matter of fact insufficient knowledge to justify their admission in evidence at this time. I would like to inquire if any of these petitioners are present?

Mr. Mackay: No, there are no petitioners present.

Mr. Leming: None of them are present in the courtroom?

Mr. Mackay: No.

Mr. Leming: Are any of them present in Long Beach?

Mr. Mackay: I do not know about that.

Mr. Leming: Where do they reside, in Los Angeles?

Mr. Mackay: They reside in Los Angeles.

Mr. Leming: Are they all there at this time?

Mr. Mackay: I do not know about that.

Mr. Leming: It seems to me that there has not been sufficient identification here of the subject matter that is supposed to represent the cancellation or the identity of the signatures of these several persons.

Now, if they offer them on the theory that they have been properly identified and accounted for as



(Testimony of Horace E. Downing.)

to notations and signatures, then, of course, I would object.

Mr. Mackay: Pardon me. I think I had better cover this in more detail.

The Member: Proceed:

By Mr. Mackay:

Q. Now,—

By Mr. Leming:

Q. Mr. Downing, I will ask you to please take the notes here—or I can do this, as your Honor suggests, to expedite the matter; I can proceed on cross examination to develop the matters and move later to strike.

Mr. Mackay: I will bring this out; I did not go through them and identify the signatures of each individual; but I should like to do that in order to perfect my record.

The Member: Proceed as rapidly as convenient.

By Mr. Mackay:

Q. Mr. Downing, I show you three notes here which you have identified as the Chandis Securities Company's and they are all made out to Marian Otis Chandler.

I shall ask you to please examine each one of these three notes and state whether or not on the face of them, under the writing you have identified as the writing you put on there when they were cancelled, you know the signature thereon is the signature of Marian Otis Chandler?



(Testimony of Horace E. Downing.)

A. It is.

Q. You are familiar with her signature?

A. Very.

Q. And you know it?                      A. Yes, sir.

Q. I show you three other sets of notes, apparently made out to Franceska Chandler Kirkpatrick, and I will ask you to state to the court whether or not you knew her signature and know her signature, and whether or not her signature appears on those notes in the places noted there for cancellation?

(The documents in question were passed to Mr. Downing.)

A. I know her signature, and that is her signature.

Q. I will ask you to examine all these notes and to read to the court the names, the payee of the notes, and state whether or not——

The Member: It will not be necessary to go into this detail unless you think it is very essential. Examine all the notes, and identify each one as to the payee of the note and the signature purporting to be a cancellation, and then state, if you will, whether or not they all bear the signatures.

The Witness: These notes are all canceled by the persons to whom they are made payable and the cancellation is in their handwriting. It is their signatures.

The Member: You are thoroughly familiar with the signature of each?

(Testimony of Horace E. Downing.)

The Witness: I am.

The Member: The signatures were made in your presence?

The Witness: They were.

The Member: They were made on January 2, 1930?

The Witness: They were made in the early part of January 1930. They may not all have been made upon that date.

The Member: Proceed.

Mr. Mackay: Now, if your Honor please, I think that the signatures of each one of these individuals have been properly identified, and I think that the notes have been properly identified as the notes of the petitioners here.

The Member: They may be received in evidence. You may substitute photostatic copies. You need not mark each of the originals. You can mark all of the photostatic copies.

The Clerk: Shall I make them all Exhibit 1?

The Member: Mark them all Exhibit 1.

(The documents referred to were received in evidence and marked collectively, "Petitioner's Exhibit No. 1", and made a part of this record.)

By Mr. Mackay:

Q. Now, Mr. Downing, did you also issue the stock of the Chandis Securities Company, the new stock? A. I did.

Q. I mean you took care of the details of issuing that? A. Yes.

(Testimony of Horace E. Downing.)

Q. Have you a record which shows when the stock was issued, and to whom? A. I have.

Q. Have you that in your possession?

A. I have.

Q. It has been stipulated that certain shares of stock were issued to the petitioners here in consideration for notes and accrued interest.

I will ask you to please examine your record and state to whom the stock was issued, and what date the stock was issued?

The Member: Are those facts stipulated?

Mr. Mackay: Not when it was issued, your Honor.

The Member: Not when it was issued?

Mr. Mackay: But to whom it has been issued. It has been stipulated, of course, the stock was issued to those individuals, and all I want to bring out by this witness is when those stocks were issued.

The Witness: Certificate Number 29 was issued to Marian Otis Chandler on January 2, 1930.

Certificate Number 30 was issued to Franceska C. Kirkpatrick on January 2, 1930.

Certificate Number 31 was issued to May C. Goodan on January 2, 1930.

Certificate Number 32 was issued to Helen Chandler on January 2, 1930.

By Mr. Mackay:

Q. Just a moment. All right; go ahead.

A. Certificate Number 33 was issued to Phillip

(Testimony of Horace E. Downing.)

Chandler January 2, 1930.

Certificate Number 34 was issued to Ruth C. Williamson on January 2, 1930.

Certificate Number 35 was issued to Harrison G. Chandler on January 2, 1930.

Certificate Number 36 was issued to Constance Chandler on January 2, 1930.

Certificate Number 37 was issued to Norman Chandler on January 2, 1930.

Q. Now, Mr. Downing, you have in your possession the stock certificate stubs do you not?

A. Yes I have.

Q. For the stock that you have just read?

A. Yes.

Q. I will ask you if there is a signature on each one of those stock certificate stubs showing the issuance of the stock that you have just related?

The Member: Showing the issuance or the receipt?

Mr. Mackay: Showing the receipt. Thank you, your Honor.

The Witness: There is.

By Mr. Mackay:

Q. Do you identify those signatures as the signatures of the petitioners?

A. They are.

Q. And they are the same signatures that you have identified as being on the notes, the cancellation of notes?

A. They are.

(Testimony of Horace E. Downing.)

Q. Do those stock certificate stubs show what date the stock was issued to these individuals?

A. Yes, they do.

Q. What dates do they show?

A. January 2, 1930.

Q. In each instance?

A. In each instance.

Q. Now, you have had photostatic copies made of these certificates, and also the stubs, have you not, Mr. Downing?

A. I have.

Q. And you gave them to me?

A. I did.

Q. I hold in my hand the photostat copies of the certificates that you have just enumerated, which also contain, I believe a photostat copy of the stubs, and also the backs.

I will ask you to please examine these photostat copies and state—just a moment before I do that.

I will first ask you if from the stubs you have read here, stock certificate stubs, there have been detached the certificates Mr. Downing?

A. Yes.

Q. When you had these photostats made, were the certificates laid along opposite the certificates or the stubs?

A. It would appear so.

Q. Yes. I will ask you to please examine these photostats I show you now and state to the court whether or not those are photostat copies of the certificates and the stubs that you have just referred to?

(The documents in question were passed to Mr. Downing.)



(Testimony of Horace E. Downing.)

Mr. Mackay: That is quite evident, Mr. Leming. I could separate those with a knife, if you want me to, but I think for convenience they should all be there together.

The Witness: They are.

By Mr. Mackay:

Q. I notice on the back of each one, the back, what appears to be the back of the stock certificate; is that right, Mr. Downing? A. That is right.

Q. And at the right hand side there are some cancelled document stamps. Where did you get that picture from? Is that from the back of the stock certificate stubs?

A. That is the back of the stock certificate stubs.

Q. And when were those—when those were photostated, the certificates were not attached, were they? A. They were not.

Mr. Mackay: We would like to offer in evidence the stock certificates which were issued at that time, and also the stubs, and I should like to substitute photostat copies of the documents which I just referred to.

I call your Honor's attention to the fact they appear to be together, but they were not together when they were actually photostated. It is quite evident that they were placed together, as you can see from some of the marks.

The Member: Any objection?

Mr. Leming: Only on the ground of materiality, if your Honor, please.



(Testimony of Horace E. Downing.)

The Member: They may be received as Exhibit Number 2. They will be marked as indicated in the last exhibit preceding this.

(The documents referred to were received in evidence and marked collectively, "Petitioner's Exhibit No. 2", and made a part of this record.)

By Mr. Mackay:

Q. I think I have asked you, but to make sure, Mr. Downing, from your own personal knowledge do you know when these stock certificates that have just been received in evidence were issued by the corporation, issued by you? A. When?

Q. Yes. A. On January 2, 1930.

Q. January 2, 1930? A. Yes.

Q. Mr. Downing, it has been stipulated here that there were outstanding a certain number of notes on January 1, 1923, which contained a provision, of course, that interest should be paid. Do you know how that interest was handled on the books of the Chandis Securities Company?

A. The interest was charged as an expense of operation for the year and was credited to the account in the ledger which contained the principal of the note of the payee.

Q. Mr. Downing, have you a record here of the Chandis Securities Company, other than the stock certificates, showing just when these stocks were issued? Have you the stock journal, Mr. Downing?

A. No.

Q. Have you any journal here? A. No.

(Testimony of Horace E. Downing.)

Q. Did you prepare a statement, a balance sheet of the Chandis Securities Company, a closing balance sheet for the year 1929? A. Yes.

Q. There was one prepared under your direction? A. There was.

Q. From what books did you prepare the statement, Mr. Downing?

A. From the general financial books of the corporation, which were concentrated in what we call the balance sheet book.

Q. And you have that book in court?

A. That book is here.

Q. I show you a paper here and ask you if that is a summary showing the closing balance sheet of the Chandis Securities Company for the year 1929?

(The document in question was passed to Mr. Downing.)

A. It is.

Q. Now, Mr. Downing, you have already identified this as a statement that you prepared from the books, and I notice that there are notes payable here to the various individuals, including, of course, the petitioners here before the Board, and opposite each is the amount.

I will ask you if that amount represents just the principal of the notes or whether it includes the accrued interest also at that time?

A. That includes the accrued interest.

Q. I see. A. At that time.

(Testimony of Horace E. Downing.)

Mr. Mackay: If your Honor please, we offer the statement in evidence.

The Member: Any objection?

Mr. Leming: May I inquire the purpose of the offer?

Mr. Mackay: The only purpose for which we offer this in evidence is merely to show that the closing balance sheet of the Chandis Securities Company did disclose these notes payable.

Now, counsel in his opening statement there has stated the corporation did take as a deduction the interest that had accrued, and this is merely to show that the corporation at the end of the year in its closing balance sheet treated these notes as notes payable. It shows——

The Member: Is that shown to refute his suggestion?

Mr. Mackay: No.

The Member: That they had taken deductions of these amounts?

Mr. Mackay: I beg pardon?

The Member: I say is that shown to refute the suggestion of government counsel that they had taken deductions of these amounts?

Mr. Mackay: Not at all. It is offered to show that this transaction was not closed in 1929. We think it is a chain in the evidence.

The Member: Very well.

The Member: Very well.

(Testimony of Horace E. Downing.)

Mr. Leming: I object to the document because it is inconsistent with the stipulated facts.

The Member: Will you point to the inconsistency, Mr. Leming?

Mr. Leming: Because it has been stipulated that the stockholders offered and the directors accepted in proposal to give them stock for their indebtedness in the year 1929, subject only to the approval of the Corporation Commissioner; and the Corporation Commissioner's approval was given in the year 1929.

It is wholly immaterial whether a physical stock certificate was issued, for counsel has not stipulated—I do not recall that he has—these notes were not a liability of this corporation after 1929. They did not pay any interest on them after 1929. There did not accrue any after 1929.

Now, it seems to me to offer something to show that they had them at the close of business December 31, 1929, is certainly inconsistent with most of the stipulated facts.

Mr. Mackay: Your Honor, I do not see the inconsistency there. The stipulation——

Mr. Leming: As I understand it, he offers this to show that they still owed these people these sums at the close of business——

Mr. Mackay: In 1929.

Mr. Leming: —December 31, 1929.

The Member: I think it goes to the heart of

(Testimony of Horace E. Downing.)

his theory of proof on that angle of the case, and for that reason I will admit it.

The Clerk: Exhibit 3.

The Member: It will be received as Exhibit 3.

(The document referred to was received in evidence and marked "Petitioners' Exhibit No. 3", and made a part of the record.)

Mr. Mackay: Of course, the record is quite clear. I did not go into detail about the stipulation, if your Honor please.

The Member: That will be a matter for argument. Anything you have to say you can put in your brief, if you wish to argue this question of consistency or inconsistency.

Mr. Mackay: What I had in mind was this: Several statements have been made by counsel that we have agreed there was an offer and an acceptance. Perhaps from the document he may argue there was, but I will not admit it as a fact.

#### On Cross-Examination.

Mr. Downing testified as follows:

The stockholders of the Chandis Securities Company are members of one family. This has always been true of the stock ownership. I have been with the corporation since it was created in 1916. I have been with the Chandler family since 1902. The Chandis Co. was organized at the instigation of Mr. Harry Chandler who was the senior member of the Chandler family. He is the one with whom I have been since 1902.



(Testimony of Horace E. Downing.)

I have not always been the custodian of these notes. I can not state definitely when they came into my custody the last time. I know Revenue Agent Donally who is sitting here in court. I did not inform him in October, 1931, that these notes were cancelled in 1929. I don't remember whether I informed him at that time that they were in my possession in the year 1929. I will say that I do not remember that I so informed him. They were in my possession in the year 1929. I had them previous to the year 1929, but I can't tell how long previous to that year. I had all of these notes in my possession throughout the year 1929. I did not act as a secretary for all the members of the Chandler family, but they entrusted to my keeping these notes. The notes were kept in the safe which belongs to the Times Mirror Co., which is situated in my room. In the office of the Times Mirror Co., within which the business of the Chandis Securities Co., is transacted. I could not say whether I had the notes all during the year 1928. All of the other records of the Chandis Securities Co. are kept in that same safe, and were so kept throughout the year 1929. I can not say positively whether they were kept there throughout 1928. I can not tell you when I first begun to put things in the safe that belonged to the Chandis Securities Co. It was



(Testimony of Horace E. Downing.)  
a progressive matter. I moved in that office in 1923. The safe was not there at that time. Before the safe was moved into the office I kept the records in a very unsatisfactory place, in some filing cabinets. I did not keep all of the records of the Chandis Securities Co. in that filing cabinet in 1923. I would not attempt to say how long I was there before I got a safe.

Continuing the witness testified as follows:

Q. Mr. Downing, did any one of these petitioners ever have their hands on these notes at all?

A. Why, most assuredly they did.

Q. When?

A. When they were executed.

Q. How long did they keep them in their possession at that time?

A. That I cannot tell you.

Q. Isn't it a matter of fact that they handed them right back to you?

A. That also is something I cannot tell you positively about, but I think not.

Q. I will ask you, Mr. Downing, if you did not tell Revenue Agent Donally in October, 1931, that exchange of stock for the indebtedness took place in the year 1929, and the notes were cancelled in the year 1929, and the physical issuance of the stock certificates simply was a mechanical action which was delayed because you did not have the certificates printed?

A. I have no recollection of that conversation with Mr. Donnally.

(Testimony of Horace E. Downing.)

Q. You have no recollection of telling him that the only reason the certificates were not issued in 1929 was because the printer had not printed them?

A. Why no.

Q. You did not tell him that?

A. I have no recollection of telling him that. The stock certificates, if I may say so, are the same certificates which we had previously. The books will show that.

Q. When did you have the certificates printed to take care of the issuance of the new stock?

A. They were not printed. They are the same certificates.

Q. Did they come out of the same stock certificate book?

A. Absolutely, yes, sir.

Q. Did you tell Mr. Donnally then that all that remained to do was the physical mechanical issuance of those certificates?

A. I have no such recollection.

Q. Assuming I am mistaken, Mr. Downing, as to how he said that, I want to be clear with you on this point: Didn't you tell him that nothing remained to be done in 1929 but the mechanical issuance of the stock certificates?

A. I have no recollection of telling him that.

Q. Well, if Mr. Donnally says that is what you did tell him, what would you say to that?

A. I probably should not say anything to it.

(Testimony of Horace E. Downing.)

the amended petitions were filed the first day your Honor sat out here.

The Clerk: The 25th.

Mr. MacKay: Which was the 25th of September. Prior to that time I did not feel I could file them, because other members of the Board were out here, and I understood their paraphernalia and records were going north.

Mr. Leming: You mean to say you spoke to me after I arrived in Los Angeles in August, recently?

Mr. MacKay: Yes. I think it was after you had arrived that I was retained, so I will take the blame for raising that issue.

Mr. Leming: May we see the original stock certificates that have been offered in evidence?

(The documents in question were passed to Mr. Leming.)

Mr. Leming: What I would like to have is the stock certificates issued here in that sum, authorized by the Corporation Commissioner, in the total sum we have stipulated? Didn't you offer those in evidence?

Mr. MacKay: Yes. I thought they were here. Mr. Downing, did you bring the original certificates that were issued on January 2, 1930? I understood you that you have them down here?

The Witness: Did I bring them?

Mr. MacKay: I understood you had them down here with you.

The Witness: They are available.

(Testimony of Horace E. Downing.)

Mr. MacKay: I am sorry.

Mr. Leming: Have these been offered in evidence?

Mr. MacKay: Yes, they were offered in evidence and photostats substituted.

When did you have a new certificate book printed, Mr. Downing?

The Witness: We had no new certificate book printed.

Mr. MacKay: And you had none up to this time?

The Witness: No, sir.

Mr. MacKay: Do you have the journal of the Chandis Securities Corporation here, Mr. Downing?

The Witness: No, sir.

Mr. MacKay: Doesn't that journal show the fact that those stock certificates were issued as of December, 1929?

The Witness: No, sir.

Mr. Leming: If your Honor please, I would like to have that journal produced.

The Witness: Well,—

Mr. MacKay: Have you a sheet showing that?

Mr. Leming: Let us see the journal book, the original entry in that book. If it is not here, I think it is of sufficient importance to ask his Honor for a subpoena for it.

Mr. MacKay: We will get it. There is no need to subpoena it. We will get anything that you want.

Mr. Leming: All right, thank you.

Mr. MacKay: I had intended to go into that matter. May I take the witness for a minute?

Mr. Leming: All right.

(Testimony of Horace E. Downing.)

By Mr. MacKay:

Q. Mr. Downing, I will hand you some papers and ask you if that is the original entry that was made by you or under your direction, showing the original entry made in any records of the Chandis Securities Company, showing when the stock certificates were issued? I am referring to the new certificates.

A. This is a rough draft of the journal entries from which the entry was made in the journal, the permanent journal of the Chandis Securities Company.

Q. I see. And have you made a copy of that or a summary of it?

A. I have, yes, sir.

Q. I show you a document and ask you if that is a summary that you have made of it, or is it a true copy, which?

(The document in question was passed to Mr. Downing.)

A. It is a true copy of the entries as made in the journal. In explanation of that, I may say for your information that here is some——

Q. You are turning to the second page there?

A. The second page. There is some collateral information here which is not pertinent to the original entries, and which was eliminated.

Q. What is this paper? You say it is the original entry. Where has it been kept?

A. It has been kept in the office of the Times Mirror, Chandis Securities Company, in Room 1.



(Testimony of Horace E. Downing.)

Q. That is, your journal up in Los Angeles?

A. Yes.

Q. It can be brought down here if necessary?

A. Yes.

Q. Do you know what date the journal itself shows the entries were made?

A. In April, 1930.

Mr. MacKay: If your Honor please, I am just offering this testimony to clear up an inference that was raised on cross examination, and I offer this in evidence and would like to substitute a copy of it.

The Member: Do you wish to examine this, Mr. Leming?

Mr. Leming: Yes, your Honor.

(The document in question was passed to Mr. Leming.)

Mr. MacKay: I may state for the record that I intended to go into that and the reason that was brought down I expected to prove that fact. Mr. George M. Thompson and I consulted on that before we began, and came to the conclusion it was not necessary to burden the record with any more detail along that line. It is merely cumulative, anyway of what we put in.

The Member: Proceed:

By Mr. Leming:

Q. Mr. Downing, did you take this data off the books yourself on these yellow sheets?



(Testimony of Horace E. Downing.)

A. No, sir. That is the data from which the books themselves were written.

Q. Now, just what do you mean by that?

A. That is a rough draft, preparatory draft of data to be transcribed into the financial journal.

Q. Who made this rough draft?

A. That was made by a bookkeeper by the name of Mr. Hess, and was submitted to me for approval.

Q. Are there identifying marks on it of yours in any way?

A. Yes. There are some interpolations. There is one, and this is my handwriting.

Q. When you say this is your handwriting, just read what you say is your handwriting?

A. "See Corporation Commissioner's permit Number L. A.-264 dated December 26, 1929."

Q. That appears right under what? Read what appears as the caption of that.

A. "Subscriptions to stock. To capital stock subscribed to record subscriptions to stock by the following people at \$100 per share."

It goes on and states these people, with the number of shares opposite their names.

Q. You say the thing you have in your hand and which has just been offered in evidence by counsel for the petitioners——

The Member: It has not been marked.

(Testimony of Horace E. Downing.)

By Mr. Leming:

Q. (Continuing) But not yet marked. You say that document, or those documents, which are pinned together, became the basis of the journal entries? A. They did.

Q. I do not know much about bookkeeping, but I assume from what you say that somebody first makes a notation of what is to go into a journal, and that goes to the bookkeeper and he records it; is that right?

A. Usually the other way. The bookkeeper usually makes the proposed journal entries and sends them to me, and I return them to him and he incorporates them into the financial books.

Q. Is he supposed to put it into the books just as you have approved it?

A. All with the exception of changes in error or context.

Q. Do you recall what the books actually show about this journal entry J-193-22?

A. Do I what?

Q. Do you recall offhand or can you refresh your recollection any way and say what the journal actually shows as to this entry described as J-193-22?

A. No, I cannot. Have you anything there that purports to be it?

Q. I have a notation here which purports to be it, and it says "Part payment by cancellation of

(Testimony of Horace E. Downing.)

note plus interest as of December 31, 1929." That purports to be a direct copy from the book itself. Would you say that would be right?

A. I should judge so, yes.

Q. Then right under it shows the amount of each one, for instance, M. O. Chandler, \$1,472,056.62, and the others in order, which are the same amounts as described in the stipulation of facts, if I am not mistaken.

A. Yes. This is right. This states just exactly what it is.

Q. All right. It also shows the stock they got and the cash they paid.

A. Not at that time, not as of December 31, 1929. That refers to interest only, plus interest as of December 31, 1929. That does not refer to the cancellation of the stock at that date, or the net. It refers to plus interest as of December 31, 1929.

Q. There was not any interest after that date, was there?

A. There was not.

Mr. Leming: Did you offer this?

Mr. MacKay: Yes.

Mr. Leming: No objection.

The Member: It will be received as Exhibit Number 4.

(The document referred to was received in evidence and marked "Petitioner's Exhibit No. 4" and made a part of this record.)

Continuing the witness testified:

(Testimony of Horace E. Downing.)

I have a very definite recollection that the long delay between the issuance of the stock certificates on January 2, 1930, and the entries made in the books in April or May, 1930, was due to the press of work occasioned by the United States Government income tax. No, that was not in progress also in December, 1929. We could not do anything regarding the income tax for the year 1929 until after the close of our fiscal year. It was immediately after the close of 1929 that we began to get our income tax returns ready for the year 1929. We commenced to correlate them in January.

Referring to Petitioner's Exhibit No. 1, and to the typewritten matter across the face of the notes, I did not do that typing.

Continuing the witness testified:

Q. You have had occasion no doubt to handle a good deal of negotiable paper, have you not?

A. Some.

Q. Well, if you had a note outstanding and you paid the note off and somebody had returned the note to you, would you consider the note cancelled?

A. Not unless they cancelled it themselves. I should require the cancellation of it.

Q. If the note had been paid and the note was delivered back to you—for instance, if you gave a note to somebody and that note was paid and the note returned to you, you would regard that note as cancelled, wouldn't you?

A. No, sir, I would not.

(Testimony of Horace E. Downing.)

Q. If you paid it and got the note back in your own possession you would still say you would not regard it is cancelled?

A. No, sir, I would not. I might lose that note, I would not.

Q. In other words you would think somebody would have to write across it and say, "It is hereby cancelled"? A. Yes, sir.

Q. In your own opinion there is no cancellation until somebody does that?

A. That is my opinion.

Mr. Leming: That is all.

Mr. MacKay: If your Honor please, I have just sent to Los Angeles for that journal record to clear up that matter. It may not be here until two o'clock. I understand counsel has no witnesses, and we perhaps could close before that, but I should like very much to clear that up and show just when those journal entries were made, because we want to overcome the inference I think has been wrongly drawn from it.

Mr. Leming: Your Honor, there is no controversy between us as to when the journal entry was made. That was made in 1930.

Mr. MacKay: All right.

Mr. Leming: But the journal shows it was made as of December, 1929.

Mr. MacKay: Whatever that shows then.



(Testimony of Horace E. Downing.)

Mr. Leming: There is a slight discrepancy between what he says was the pattern for the journal entry and the actual journal entry, but if it is agreed it was as of December, 1929, I have no objection.

Redirect Examination

By Mr. MacKay:

Q. Will you examine Exhibit Number 4 and state when that journal entry was made?

A. In April, 1930.

Q. Was it made as of any date?

A. As of April, 1930.

Q. Was it made as of December 31, 1929?

A. No.

Q. Mr. Downing, I neglected on my direct examination to have you identify the stock certificates that were issued, I believe, pursuant to the permit dated in May, which is stipulated and which were issued to the old stockholders in exchange for their stock. I show you a number of certificates, and I ask you to identify those and state what they are?

A. These are the certificates which were issued in lieu of the former certificates outstanding, representing the original capitalization.

Q. And were they issued on the date that they bear?

A. May 7, yes.

Q. May 7th, when?

A. 1930.

Q. Would you please turn to the stubs in the stock book which I hand you and turn to the stubs Numbers 38, 39, 40, 41, 42, 43, 44, 45, 46 and 47.



(Testimony of Horace E. Downing.)

A. Yes, sir.

Q. I will ask you to please state if on those stubs there are signatures of the petitioners that you have identified before? A. There are.

Q. And they show that the stock was received on May 7th, 1930?

A. They show the stock was issued on May 7, 1930.

Q. I see. And there were documentary stamps, were there, attached to those certificates?

A. No.

Q. It was a new issue? A. No.

Q. You at my request prepared or had photostats made, did you? A. Yes, I did.

Q. Of these stubs and certificates?

A. I did.

Q. At the time these photostats were made, were the certificates attached to the stubs?

A. No, they were not.

Mr. MacKay: If your Honor please, I should like to offer in evidence these original stubs that I have referred to here, and also the original certificates, with the privilege of withdrawing them and substituting photostat copies.

The Member: Any objection?

Mr. Leming: No.

The Member: They will be Exhibit Number 5.

(The documents referred to were received in evidence and marked "Petitioner's Exhibit Number 5", and made a part of this record.)

(Testimony of Horace E. Downing.)

Continuing the witness testified:

I also do work for the Times Mirror Co., and did in 1929. I have been doing work for the Times Mirror Co. for some time, so my duties are not confined just to the mere routine of the Chandis Securities Co. Confining myself to around 1929 and 1930, besides taking care of the issuance of stock of the Chandis Securities Co. and so forth, I am employed by the Times Mirror Company in the capacity of auditor and assistant secretary. That carries with it the necessity of doing the work which may arise in the Chandis Securities Co. Also it requires my attention to a great many of the individual requirements of the members of the executive committee of the Times Mirror Co., among whom are Mr. Harry Chandler and Mr. Pfaffinger. Mr. Harry Chandler and Mr. Pfaffinger are on the executive committee of the Times Mirror. Then in addition there is all the work which naturally gravitates to an office like that. It has to do with individual members of the Times Mirror organization. Some of those are R. W. Trueblood, S. W. Crabell, J. Baum, A. N. Damon, and many others. The Times Mirror Company is the organization that prints the Los Angeles Times newspaper.

Continuing the witness testified and the following colloquies occurred:

Q. I see. Now, you have been asked on direct examination—or on cross examination, rather, to a considerable extent about the safe that is in your office. I will ask you to please state to this Board

(Testimony of Horace E. Downing.)

just who uses that safe for keeping their valuables or records, or whatever they keep in it?

A. I am afraid that that would take——

Mr. Leming: If your Honor please, I object to this line of redirect examination. The only reason for the discussion of the safe was this: It was being inquired of this witness as to when he got these particular notes, and how long he had had them in his possession, and he said he had them in his possession throughout the year 1929, and he had them in that safe. There is no occasion for any redirect examination on that.

The Member: I think it is merely piling up the record.

Mr. MacKay: If your Honor please, the inference was drawn, at least that I got from his cross examination, that these notes were just given to him there. I want to bring out this fact, that these notes were in that safe, as were the stock certificates after, and that this safe was not only used for the Chandis Securities Company, but——

The Member: What difference does it make how many people used it?

Mr. MacKay: I know, but I want to make sure this Board does not get the idea these notes were not genuine notes and that they were held by this man other than as a mere safe-keeper for the individuals who put their notes in the safe, and where their stock has always rested. That is the reason I am bringing that out.

(Testimony of Horace E. Downing.)

The Member: I will sustain the objection to the question that was asked.

Mr. MacKay: Read the question, please, Mr. Reporter, so I may understand it at least.

(The pending question was read by the reporter as follows:

“Q. I see. Now, you have been asked on direct examination—or on cross examination, rather, to a considerable extent about the safe that is in your office. I will ask you to please state to this Board just who uses that safe for keeping their valuables or records, or whatever they keep in it.”)

Mr. McKay: Note an exception, please.

Q. Mr. Downing, there are stock certificates that have been offered in evidence? A. What is it?

Q. The stock certificates of the Chandis Securities Company, which have been offered in evidence here and which were issued on January 2, 1930, I will ask if those certificates were kept in the safe?

A. They were.

Q. In the same safe that you had theretofore kept the notes? A. They were.

Q. I see. And they were kept in that safe, were they, for safekeeping for the various individuals?

A. They were.

Q. And when I speak of the various individuals, I mean the various individuals to whom they belonged? A. They were.

Q. I will ask you if you were at any time the business manager of the various petitioners here,

(Testimony of Horace E. Downing.)  
including Marian Otis Chandler, and the others?

A. I never was.

Q. You never were?                    A. No.

Q. Did you have any other duties with them, other than permitting them to keep in the safe the notes and the certificates and some other valuable papers?

A. That is all, with the exception of taking care perhaps of some of their income tax returns.

Q. I see. Did you have any other authority from these individuals than merely to provide a safe place for them to keep the notes and the certificates?                    A. Nothing.

On

#### Recross Examination

the witness testified as follows:

The stock of the Times Mirror Company is owned by 47 or 48 different people. The Chandis Securities Company now owns 1983 shares. I can not state without the stock records what percentage of the total number of shares it owned in 1929 or 1930. It is not a fact that the Chandis Securities Company owns most of the stock of the Times Mirror Company. It does not own a controlling interest in it. The Chandis Securities Company and the Chandler family, the nine petitioners here, own and control a majority of the stock of the Times Mirror Company. A majority of the stock of the Times Mirror Company is owned by the Chandis Securities Company and the Chandler family together.



(Testimony of Horace E. Downing.)

At this point it was agreed between counsel that a photostat copy of the journal page of Chandis Securities Company, showing the journal entry of April 26, 1930, would be later submitted in evidence in lieu of taking the time to obtain and produce the journal itself at the hearing. Whereupon the petitioners rested and the government rested at 12:45 o'clock p. m. October 5, 1933.

On motion of petitioners' counsel the hearing was reopened at 2:00 o'clock p. m. the same day and Horace E. Downing was recalled as a witness by and on behalf of the petitioners and on

#### Redirect Examination

testified as follows:

By Mr. Mackay:

Q. I show you the stock certificate book of the Chandis Securities Company which you have identified heretofore in this case, and I call your attention to Certificates 1 to 28, inclusive, which show a capital stock of \$500,000, having a par value of \$1000 per share.

The Member: And so printed on the certificate.

By Mr. Mackay:

Q. And it is so printed on the certificate. I will ask you to examine this book and state whether or not the certificates from 29 on contain the same capitalization or if there is a change?

A. There is a change, starting in with Certificate Number 29.



(Testimony of Horace E. Downing.)

Q. What is that change? Pardon me, go ahead.

A. Running through to certificate 103, and this change is composed of the addition of one cipher to the capital stock.

Q. Making it—— A. \$5,000,000.

Q. Instead of?

A. Instead of \$500,000 and no cents, and the addition of one cipher to the share each, with the interposition of a period, making it \$100 a share instead of \$1000.

Q. Mr. Downing, how do you account for the fact that the certificate in the same book are—that the certificates from 29 on are different than prior to 28?

A. That was occasioned by the application of economy, and it was occasioned, or, rather, it was arrived at, as I say, by the addition of ciphers and the putting in of *of* commas and periods.

Q. Do you call that an overprint?

A. That is what we call an overprint, yes.

Q. Do you know when that was done?

A. I cannot tell you definitely. It was just a part of the mechanics and I cannot tell you when it was done definitely.

Q. And this is the book you had in your hands previously when you testified it represented the books of the Chandis Securities Company?

A. Yes.

Q. From which you issued the shares in January, 1930, and also in May, 1930, the original stock

(Testimony of Horace E. Downing.)

of the Chandis Securities Company?      A. Yes.

Mr. Mackay: That is all.

### Cross Examination

By Mr. Leming:

Q. In other words, you had new certificates printed; is that right?      A. No, sir.

Q. All right. What did you have printed? Let us use the word "print." I assume there was a print by a printing press, was there not?

A. There was not.

Q. How was it done?      A. Pen and ink.

Q. Who did it with a pen and ink?

A. That was done by the job department of our institution.

Q. Let us see. Show me one in pen and ink.

A. That cipher is put in there in ink.

Q. That says \$500,000 capitalization, doesn't it?

A. No; it says \$5,000,000 capitalization.

Q. Which one was put in there by pen and ink?

A. The final cipher, right here (indicating).

Q. Who did that, you say?

A. It was done in our job department of the Times Mirror Company.

Q. You mean they have somebody in the printing office there who, instead of using type, takes a pen and ink, and does these things?

A. I do not know that they have anybody who does it that way, as a general rule, but it was done in this instance.

(Testimony of Horace E. Downing.)

Q. Did you do it?           A. No, sir.

Q. Did you see it done?       A. No, sir.

Q. You do not know when it was done?

A. No, I do not. I cannot tell you precisely.

Q. I want to ask you again if you did not tell Mr. Donnally that it was not done in 1929, and that is the reason there was a delay in the mechanics of issuing these certificates?

A. I have no recollection of that conversation with Mr. Donnally.

Q. Do you know whether this was done in 1929 or 1930?       A. I do not.

Q. You would not undertake to say whether it was done in 1929 or 1930.       A. I would not.

Q. But it had to be done before you issued the certificates; is that right?       A. Yes, sir.

Q. When you say this was done in the job department of the Times Mirror Company, you have reference to the news company, that is the corporation which publishes the Times?       A. I have.

The foregoing evidence is all of the material evidence adduced at the hearing before the Board of Tax Appeals, and the same is approved by the undersigned, Herman Oliphant, General Counsel for the Department of the Treasury, as attorney for the Commissioner of Internal Revenue.

(Signed) HERMAN OLIPHANT

General Counsel for the Department of the Treasury.

The foregoing evidence is all of the material evidence adduced at the hearing before the Board of Tax Appeals, and the same is approved by the undersigned, as attorney for the respondent on review.

.....

Th foregoing is all of the material evidence adduced at the hearing and is duly approved and settled this.....day of....., 1936.

.....

Member, United States Board  
of Tax Appeals.

Approved and ordered filed this 16th day of April, 1936.

(Sgd) ERNEST H. VAN FOSSAN,  
Member.

[Endorsed]: Filed Apr. 16, 1936.





128

①

3.14.19

San Francisco, Cal. 1914.  
after date, for value received

San Francisco, Cal.

the sum of nine hundred twenty five thousand three hundred and thirty four and 57/100 Dollars  
with interest at the rate of five percent per annum from the date until paid, interest payable  
to be compounded annually, and should the interest not be paid to the same  
rate of interest as the principal, and should the interest not be paid to the same  
then the whole sum of principal and interest shall become immediately due and  
payable at the option of the holder of this note. Principal and interest payable in  
gold coin of the United States.

Return 41

Chadwick & Co. Company  
By Wm. Chandler Sec'y.  
BY William Chandler Sec'y.

Wm. Chandler & Co. 1413







344373

Sadnaplu Got No. 31023

On or before June 5, 1927, after date for value received to be paid to  
Sumatra Co. promissory pay to Morrison Oil Co. (Shanghai) in order at

Dear Mary, I am

the sum of Tax by years

with interest as the State

date until paid, interest

rate of interest as the net

then the whole sum of

**payable at the option of**

**Sold out of the United**

38

The principal and the interest  
 of five per cent per  
 annum payable  
 in  
 principal; and should the interest in  
 principal and interest shall become  
 of the holder, the holder Principal  
 and interest  
 SECURED BY  
 OF PRINCIPAL  
 Coudis

# Chaddis

**Coddis & Carties Company**

Wing Howell

17. Markt-Dr. Handlner, 1815

Endorsements.

Principal Interest  
13,596.05

Oct. 13, 1924

Above endorsement due to reduction of the Harry Chandler note because of erroneous credit of \$150,- 211.60 to the Harry Chandler account, the above sum of \$13,596.05 being this note's proportion thereof. See Journal 7-2 to 7-12 inclusive.

\$ 150,495.34

On or before four years

Company promise to pay to

Los Angeles, California

the sum of ONE HUNDRED FIFTY THOUSAND FOUR HUNDRED EIGHTY-FIVE \$ 150,495.34 Dollars

with interest at the rate of 4% PER ANNUM from

date, until paid, interest payable

be compounded

rate of interest as the

then the whole sum of principal and interest shall become immediately due and

payable at the option of the holder of this note. Principal and interest payable in

gold coin of the United States.

LOS ANGELES, CALIF. 10th day of December, 1924.

after date, for value received CHANDLER SECURITIES

or order at

Los Angeles, California

the sum of ONE HUNDRED FIFTY THOUSAND FOUR HUNDRED EIGHTY-FIVE \$ 150,495.34 Dollars

with interest at the rate of 4% PER ANNUM from

date, until paid, interest payable

be compounded

rate of interest as the

then the whole sum of principal and interest shall become immediately due and

payable at the option of the holder of this note. Principal and interest payable in

gold coin of the United States.

CHANDLER SECURITIES COMPANY

By *Harry Chandler* President  
Attest *Wm. Chandler* Secretary



[Here follows matter consisting of notes identical with those appearing at pages 222 through 224, *mutatis mutandis*, issued by Chandis Securities Company to the other members of the Chandler family, omitted to avoid unnecessary duplication.]



**FOLDOUT BLANK**

168

Certificate

No. 29

-14,721- Shares

Issued to

Marian Otis Chandler

date Jan. 11, 1930

Transferred from

And Davis

Original  
No. of Shares  
14,721

With Original  
Shares  
14,721

And of Shares  
Transferred  
14,721

ED CERTIFICATE NO. 29

14,721 Shares

29th day of May, 1930

M. Otis Chandler

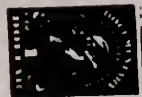
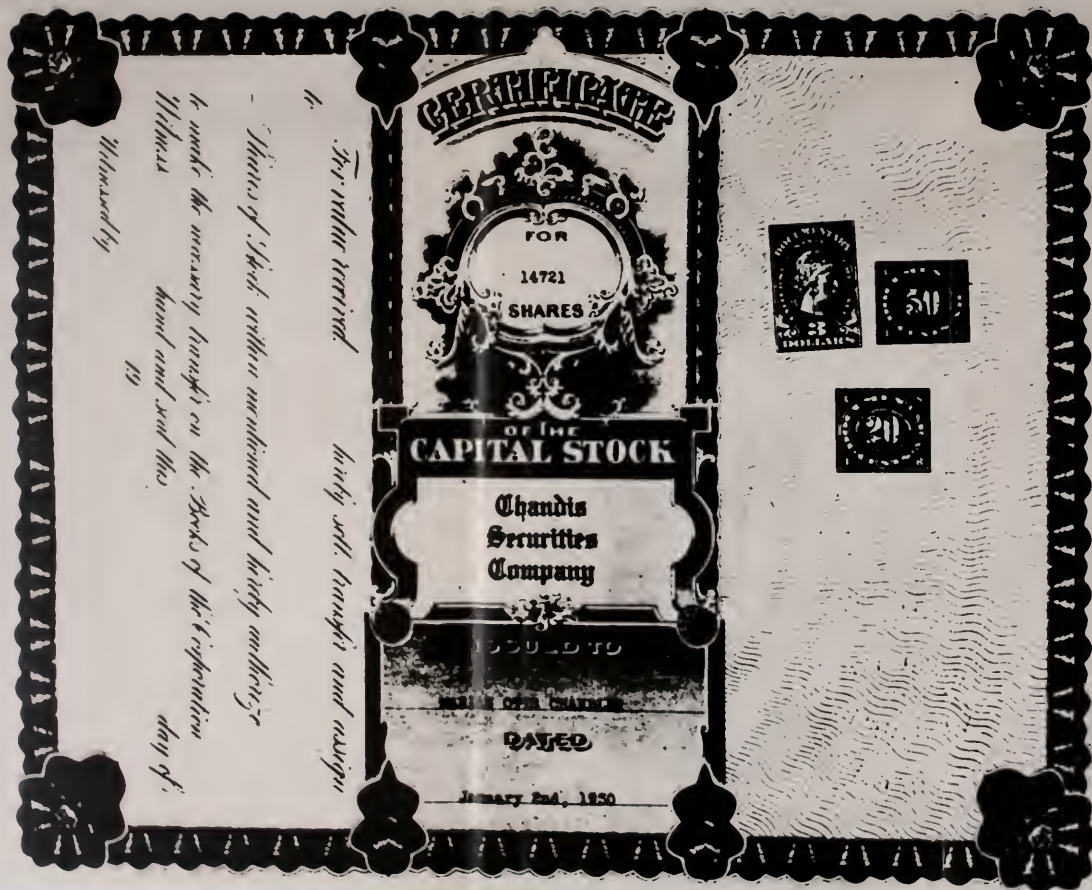


Witnessed by the duly authorized officers of the Corporation have hereunto  
subscribed their names and caused the same to be signed by them  
this 11th day of JANUARY, 1930

Marian Otis Chandler  
Secretary









[Here follow stock certificates identical with those appearing at pages 226 to 227, *mutatis mutandis*, issued by Chandis Securities Company to the other members of the Chandler family, here omitted to avoid unnecessary duplication.]

## CHANDIS SECURITIES COMPANY

## BALANCE SHEET

December 31, 1929

## Assets

Real Estate Loans.....	\$ 258,048.88
Other Loans .....	1,361,172.75
Bonds .....	50,616.00
Stocks .....	3,255,851.06
Sundry Assets .....	429,207.61
Real Estate .....	1,051,659.55
	<hr/>
	<u>\$6,406,555.85</u>

## Liabilities

1001 Capital Stock .....	\$ 500,000.00
1002 Surplus .....	1,747,885.67
1004 Note Payable—Marian Otis Chandler.....	1,238,736.96
1006 Note Uayable—F. C. Kirkpatrick.....	287,145.33
1007 Note Payable—May C. Goodan.....	287,145.33
1008 Note Payable—FXP. Tr. H. Chandler.....	193,471.58
1009 Note Payable—FXP. Tr. P. Chandler.....	193,471.58
1010 Note Payable—Ruth C. Williamson.....	193,471.59
1011 Note Payable—H. G. Chandler.....	193,471.58
1012 Note Payable—Constance Chandler .....	193,471.60
1013 Note Payable—Norman Chandler .....	174,943.89
1014 Note Payable—Marian O. Chandler.....	41,245.25
1015 Note Payable—Constance Chandler .....	7,261.31
1016 Note Payable—F. C. Kirkpatrick.....	7,261.31
1017 Note Payable—H. G. Chandler.....	7,261.30
1018 Note Payable—FXP. Tr. H. Chandler.....	7,261.30
1019 Note Payable—FXP. Tr. P. Chandler.....	7,261.30
1020 Note Payable—Norman Chandler .....	7,261.30
1021 Note Payable—Ruth C. Williamson.....	7,261.30
1022 Note Payable—May C. Goodan.....	7,261.30
1025 Note Payable—Marian O. Chandler.....	192,074.41



## CHANDIS SECURITIES COMPANY

## BALANCE SHEET—Cont'd

December 31, 1929

## Liabilities—Cont'd

1026	Note Payable—Constance Chandler .....	33,608.42
1027	Note Payable—F. C. Kirkpatrick.....	33,608.42
1028	Note Payable—May C. Goodan.....	33,608.42
1029	Note Payable—Ruth C. Williamson.....	33,608.42
1030	Note Payable—H. G. Chandler.....	33,608.42
1031	Note Payable—FXP. Tr. P. Chandler.....	33,608.42
1032	Note Payable—FXP. Tr. H. Chandler.....	33,608.42
1033	Note Payable—Norman Chandler .....	33,608.42
1040	Trust #A-3872 .....	93,735.18
1042	Unaccrued Profit .....	20,429.66
1043	Advance Rent Collections.....	3,758.33
1045	Harry Chandler—Personal .....	54.23
1046	The Times-Mirror Company.....	348.03
1048	Reserve—Depr. Hillhurst House.....	29,802.37
1049	Reserve—Depr. Hillhurst Furniture.....	21,229.13
1050	Reserve—Depr. Building, Calipatria.....	5,568.75
1051	Reserve—Depr. 933 South Olive Street....	3,877.65
1052	Reserve—Depr. 926 South Olive Street....	4,050.00
1060	Trust #5005—Deferred Credit.....	172,640.00
1061	Trust #4886—Deferred Credit.....	21,500.00
1065	Trust #3453—Deferred Credit.....	5,000.00
1068	Trust #S-5638 .....	74,840.29
1071	F. X. Pfaffinger.....	325.00
1038	Chanslor-Canfield Midway Oil Co.....	372.08
1077	Southern Pacific Company.....	17,497.44
1084	Reserve for Depreciation A. S. Carr.....	11,250.00
1090	Wilshire & Westmoreland—Mtg. Payable	100,000.00
1092	Reserve for Depreciation—Cadillac Brougham .....	735.00
1097	Trust Deed Payable E1½ Lot 3, Block A	36,697.23
1098	Reserve for Depreciation 1145 S. Hope....	3,705.37
1099	Log Cabin Mining Venture.....	15,300.00
1100	S. H. Woodruff.....	267.63
1101	Reserve for Depreciation 127 N. Irving Blvd. ....	188.39

---



---

\$6,406,555.85

[Endorsed]: Filed Oct. 5, 1933.

Charles Swinton Co. ✓  
 Journal Entry to Record Surrender in Capital  
 Stock from 500 shares of 1000 Par Value to 50,000 shares of  
 100.00 Par Value

Apr 26 - 30

① Capital Stock Surrendered  
 Capital Stock.

The Surrendered shares in Capital Stock from  
 500 shares of 100.00 Par Value to 50,000 shares  
 of 100.00 Par Value. See authorization of  
 Board of Directors, Page 110 of Minute Book

② Surrendered to State  
 Capital Stock Surrendered.

The Surrendered shares to State by  
 the following people @ 100.00 Par Value. See 110

Marion B. Chandler  
 F. C. Thompson  
 Mary C. Chandler  
 Helen Chandler  
 Phil C.  
 Lucile C. Williamson  
 Harrison B. Chandler  
 Constance Chandler

Marion Chandler  
 Helen Chandler  
 Lucile C. Williamson  
 Harrison B. Chandler  
 Constance Chandler  
 Mary C. Chandler  
 Helen Chandler  
 Phil C.  
 Lucile C. Williamson  
 Harrison B. Chandler  
 Constance Chandler

③ No. 10 Payable

Surrendered to State

Per record kept by Marion: for subscriptions  
 to State by contributors of following notes  
 owing to subscribers as of Dec 31, 1929.

Marion, Helen Chandler  
 F. C. Thompson  
 Helen Chandler  
 Phil C.  
 Lucile C. Williamson  
 Harrison B. Chandler  
 Constance Chandler  
 Marion

U.S. BOARD OF TAX COMMISSIONERS  
 DON  
 PETITIONERS  
 OCT 5 - 1993  
 EXHIBIT 1  
 67468

450,000.00

3516700.00

351560688

351560688

8193-27







Grandson Recycling Company									
Item	QTY	UNIT	PRICE	AMOUNT	TAX	TOTAL	DATE	BY	REMARKS
1. General									
1.1. Labor	100	HR	15.00	1500.00		1500.00	10/10		
1.2. Material	500	LB	2.00	1000.00		1000.00	10/10		
1.3. Fuel	100	Gal	1.00	100.00		100.00	10/10		
1.4. Maintenance	50	HR	15.00	750.00		750.00	10/10		
1.5. Insurance	100	HR	15.00	1500.00		1500.00	10/10		
1.6. Office	100	HR	15.00	1500.00		1500.00	10/10		
1.7. Travel	100	HR	15.00	1500.00		1500.00	10/10		
1.8. Food	100	HR	15.00	1500.00		1500.00	10/10		
1.9. Laundry	100	HR	15.00	1500.00		1500.00	10/10		
1.10. Other	100	HR	15.00	1500.00		1500.00	10/10		
2. Administration & Office									
2.1. General	100	HR	15.00	1500.00		1500.00	10/10		
2.2. Material	500	LB	2.00	1000.00		1000.00	10/10		
2.3. Fuel	100	Gal	1.00	100.00		100.00	10/10		
2.4. Maintenance	50	HR	15.00	750.00		750.00	10/10		
2.5. Insurance	100	HR	15.00	1500.00		1500.00	10/10		
2.6. Office	100	HR	15.00	1500.00		1500.00	10/10		
2.7. Travel	100	HR	15.00	1500.00		1500.00	10/10		
2.8. Food	100	HR	15.00	1500.00		1500.00	10/10		
2.9. Laundry	100	HR	15.00	1500.00		1500.00	10/10		
2.10. Other	100	HR	15.00	1500.00		1500.00	10/10		
3. Sales & Marketing									
3.1. General	100	HR	15.00	1500.00		1500.00	10/10		
3.2. Material	500	LB	2.00	1000.00		1000.00	10/10		
3.3. Fuel	100	Gal	1.00	100.00		100.00	10/10		
3.4. Maintenance	50	HR	15.00	750.00		750.00	10/10		
3.5. Insurance	100	HR	15.00	1500.00		1500.00	10/10		
3.6. Office	100	HR	15.00	1500.00		1500.00	10/10		
3.7. Travel	100	HR	15.00	1500.00		1500.00	10/10		
3.8. Food	100	HR	15.00	1500.00		1500.00	10/10		
3.9. Laundry	100	HR	15.00	1500.00		1500.00	10/10		
3.10. Other	100	HR	15.00	1500.00		1500.00	10/10		
4. Production & Distribution									
4.1. General	100	HR	15.00	1500.00		1500.00	10/10		
4.2. Material	500	LB	2.00	1000.00		1000.00	10/10		
4.3. Fuel	100	Gal	1.00	100.00		100.00	10/10		
4.4. Maintenance	50	HR	15.00	750.00		750.00	10/10		
4.5. Insurance	100	HR	15.00	1500.00		1500.00	10/10		
4.6. Office	100	HR	15.00	1500.00		1500.00	10/10		
4.7. Travel	100	HR	15.00	1500.00		1500.00	10/10		
4.8. Food	100	HR	15.00	1500.00		1500.00	10/10		
4.9. Laundry	100	HR	15.00	1500.00		1500.00	10/10		
4.10. Other	100	HR	15.00	1500.00		1500.00	10/10		





APR - 1930 DEBIT

DISTRIBUTION OF ASSET PRINCIPAL										DISTRIBUTION OF EXPENSE										DISTRIBUTION OF INCOME									
TOTAL	LIABILITIES	ASSETS	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	TOTAL	LIABILITIES	ASSETS	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	TOTAL	LIABILITIES	ASSETS	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	1000.00	1000.00																											
2																													
3																													
4																													
5																													
6																													
7																													
8																													
9																													
10																													
11																													
12																													
13																													
14																													
15																													
16																													
17																													
18																													
19																													
20																													
21																													
22																													
23																													
24																													
25																													
26																													
27																													
28																													
29																													
30																													
31																													
32																													
33																													
34																													
35																													
36																													
37																													
38																													
39																													
40																													
41																													
42																													
43																													
44																													
45																													
46																													
47																													
48																													
49																													
50																													
51																													
52																													
53																													
54																													
55																													
56																													



d'.h



194

Certificate

No. 38

— 7000 — Shares  
 Issued to  
 Mary C. Chandler

May 7, 1930  
 Transferred from  
 account of "S"

Nov. 23, 1916  
 Original Shares Transferred  
 200 2000

CERTIFICATE NO. 38  
 2,000 Shares

28th day of May 1930

Mary C. Chandler

THIS CERTIFIES THAT:

owner of TWO THOUSAND

MARION OTIS CHANDLER

"Petitioner's 5" is the  
 Shares of the Capital Stock of

Chandis Securities Company

transferable only on the Books of the Corporation in person  
 or by Attorney or surrender of this Certificate.

The Officers and Directors of this Corporation have hereunto  
 subscribed their names and created the separate Seal hereunto affixed  
 this 28th day of May 1930

Mary C. Chandler

Mary Chandler

SHARES

EACH





[Here follow stock certificates identical with those appearing at pages 237 and 238, *mutatis mutandis*, issued by Chandis Securities Company to the other members of the Chandler family, here omitted to avoid unnecessary duplication.]



# CORPORATION INCOME TAX RETURN For Calendar Year 1929

File This Return with the Collector of Internal Revenue for Your District on or Before March 15, 1930

PRINT PLAINLY CORPORATION'S NAME AND BUSINESS ADDRESS

**Chandler Securities Company**

(Name)

100 No. Broadway

(Street and number)

Los Angeles, California.

(Post office and State)

Date of Incorporation November, 1914.

Under the Laws of what State or Country California

REVIEWED  
SECTION E  
BY R. W. WILKS  
DATE APR 12 1930

Page 1 of Return  
File No. 138  
853290

RECEIVED

MAY 15 1930

Cash Check M. O. Cert. of Ind.  
U. S. INT. REV. 6th CAL.

Kind of Business **Buying, Selling Holding & Lending Real Estate & Personal Property.** Is This a Consolidated Return of Two or More Corporations? **No**

## GROSS INCOME

1. Gross Sales from Trading or Manufacturing Less Returns and Allowances	
2. Less Cost of Goods Sold	
(a) Inventory at beginning of year	3
(b) Merchandise bought for sale	
(c) Cost of manufacturing or producing goods (From Schedule A)	
(d) Total of lines (a), (b), and (c)	37-123
(e) Less inventory at end of year	
3. Gross Profit from Trading or Manufacturing Item 1 minus Item 2	
4. Gross Profit from Operations Other Than Trading or Manufacturing (State nature of business)	
(a)	
(b)	
(c)	
5. Interest on Bank Deposits, Notes, Mortgages, and Corporation Bonds	67 428 06
6. Rents	34 781 78
7. Royalties	
8. Profit from Sale of Real Estate, Stocks, Bonds, and Other Capital Assets (From Schedule I)	60 768 03
9. Dividends on Stock of Domestic Corporations	136 786 43
10. Other Income (including dividends received on stock in foreign corporations) (State nature of business)	25 951 15
(a) Other Income	
(b)	
(c)	
11. TOTAL INCOME IN ITEMS 3 TO 10	345 716 43

## DEDUCTIONS

12. Compensation of Officers (From Schedule C)	30 500 00
13. Rent on Business Property	
14. Repairs (From Schedule D)	4 543 18
15. Interest	172 145 60
16. Taxes (From Schedule E)	26 275 42
17. Losses (From Schedule F)	
18. Bad Debts (From Schedule G)	4 500 00
19. Dividends (From Schedule H)	136 786 43
20. Depreciation (resulting from exhaustion, wear and tear, or obsolescence) (From Schedule I)	9 088 98
21. Depletion of Mines, Oil and Gas Wells, Timber, etc. (Subtract schedule, see Instructions)	
22. Other Deductions Not Reported Above. (Explain below, or on separate sheet)	1 445 --
(a) Salaries and wages (Not included in Item 12, or 4 to 16)	
(b) Net Loss for prior year (Subtract schedule)	
(c) Sundry Expense on Real Estate	7 943 36
(d) Special assessments—Lighting, Etc.	403 40
(e) General Operating Expense	11 725 90
(f) Other Losses	44 338 61
23. TOTAL DEDUCTIONS IN ITEMS 12 TO 22	449 888 77
24. Net Income (Item 11 minus Item 23)	106 860 32

## COMPUTATION OF TAX

25. Income Tax (Item 24 above)	130 980 32
26. Less Credit of \$1,000 for a domestic corporation having a net income of less than \$25,000	
27. Balance (Item 25 minus Item 26)	
28. Income Tax Paid by Source (This credit can only be allowed to a nonresident foreign corporation)	
29. Income Tax Paid by a Foreign Country or U. S. possession by a domestic corporation (see Inst. 27)	
30. Total Tax (Item 27 plus Item 29)	
31. Balance (Item 27 minus Item 30)	

This return must be marked "Amended" at top of return

Checks and drafts will be accepted only if payable to pay

*Miss Mary J. Chandler*  
**EXHIBIT**  
No. 1  
5/6/30  
S. S. CHANDLER, Clerk  
Deputy Ch.



Items	BEGINNING OF TAXABLE YEAR		END OF TAXABLE YEAR	
	Amount	Total	Amount	Total
<b>ASSETS</b>				
1. Cash		\$ 206,822.34		\$ 220,130.38
2. Notes receivable				
3. Accounts receivable	\$ 55,451.79		\$ 49,360.98	
Less reserve for bad debts		55,451.79		49,360.98
4. Inventories:				
Raw materials	\$		\$	
Work in process				
Finished goods				
Supplies				
5. Investments (nontaxable):				
Obligations of a State, Territory, or any political subdivision thereof, or the District of Columbia	\$		\$	
Securities issued under the Federal Farm Loan Act, or under such Act as amended				
Obligations of the United States or its possessions				
6. Other investments:				
Stocks of domestic corporations	\$3,118,640.89		\$3,255,851.06	
Bonds of domestic corporations	62,929.97		50,616.—	
Stocks and bonds of foreign corporations				
All other investments or loans	1,561,513.89	4,743,084.75	1,619,221.63	4,925,688.69
7. Deferred charges:				
Prepaid insurance	\$		\$	
Prepaid taxes				
All other				
8. Capital assets:				
Land		794,742.01	\$ 131,661.51	919,998.04
Buildings	\$ 127,583.78			
Machinery and equipment			21,229.13	
Furniture and fixtures	21,229.13			
Delivery equipment			1,800.—	
Automobiles	1,800.—			
Less reserves for depreciation	\$ 150,612.91		\$ 154,890.64	
	67,797.47	82,815.44	80,406.66	74,283.98
9. Patents				
10. Good will				
11. Other assets (describe fully):				
Miscellaneous	\$ 175,466.43		\$ 143,818.54	
12. Total Assets		175,466.43		143,818.54
		\$6,058,382.76		\$6,333,280.61
<b>LIABILITIES</b>				
13. Notes payable (less than one year)		\$ 23,643.21	\$	41,187.37
14. Accounts payable				
15. Bonds and notes (not secured by mortgage)		3,385,697.03		3,515,606.88
16. Mortgages (including bonds and notes so secured)		100,000.—		136,697.23
17. Accrued expenses:				
Interest	\$		\$	
Taxes				
All other deferred Credits	377,017.49	377,017.49	298,168.28	298,168.28
18. Other liabilities (describe fully):				
Trusts		93,735.18	93,735.18	93,735.18
19. Capital stock:				
Preferred stock (less stock in treasury)	\$		\$	
Common stock (less stock in treasury)		500,000.—	500,000.	500,000.—
20. Surplus	\$1,666,517.22		\$1,686,805.91	
21. Undivided profits	88,227.37	1,578,289.85	61,079.76	1,747,885.67
22. Total Liabilities		\$6,058,382.76		\$6,333,280.61
Remarks				





Page 3 of Return

SCHEDULE L—RECONCILIATION OF NET INCOME AND  
ANALYSIS OF CHANGES IN SURPLUS

1. Net Income from Item 24, page 1 of the return.....	\$ 103,980.32
2. Nontaxable Income:	
(a) Interest on obligations of a State, Territory, or any political subdivision thereof, or the District of Columbia .....	.....
(b) Interest on securities issued under the Federal Farm Loan Act, or under such Act as amended .....	.....
(c) Interest on obligations of the United States or its possessions .....	.....
(d) Dividends deductible under Section 23(p) of the Revenue Act of 1928.....	136,786.43
(e) Proceeds of life insurance policies paid upon the death of the insured.....	.....
(f) Other items of nontaxable income ( to be detailed):	
(1) Belridge Oil Co.—Difference between Cash Receipts and actual earnings.....	30,283.47
(2) .....	.....
(3) .....	.....
3. Charges against reserve for bad debts, if Item 18, page 1 of return, is not an addition to a reserve.....	.....
4. Charges against reserves for contingencies, etc. (to be detailed):	
(a) .....	.....
(b) .....	.....
(c) .....	.....
5. Total of Lines 1 to 4, inclusive.....	\$ 63,089.58
6. Total from Line 14.....	2,009.82
7. Net profit for year, as shown by books, before any adjustments are made therein (Line 5 minus Line 6).....	\$ 61,079.76
8. Surplus and undivided profits as shown by balance sheet at close of preceding taxable year.....	1,578,289.85
9. Other credits to surplus (to be detailed):	
(a) Moses K. Chandler Property.....	4,200.—
(b) Tract 1000 .....	23,067.76
(c) Deferred Credit .....	84,768.54

10. Total of Lines 7 to 9, inclusive.....	\$1,751,405.91
11. Total from Line 17.....	3,520.24
<hr/>	
12. Surplus and undivided profits as shown by balance sheet at close of taxable year (Line 10 minus Line 11)	\$1,747,885.67
13. Unallowable deductions:	
(a) Donations, gratuities, and contributions.....	\$ 740.—
(b) Income and profits taxes paid to the United States, and so much of such taxes paid to its possessions or foreign countries as are claimed as a credit in Item 32, page 1 of the return.....	.....
(c) Federal taxes paid on tax-free government bonds .....	.....
(d) Special improvement taxes tending to increase the value of the property assessed.....	.....
(e) Furniture and fixtures, additions, or betterments treated as expenses on the books.....	.....
(f) Replacements and renewals.....	.....
(g) Insurance premiums paid on the life of any officer or employee where the corporation is directly or indirectly a beneficiary.....	.....
(h) Interest on indebtedness incurred or continued to purchase or carry obligations or securities the interest upon which is wholly exempt from taxation .....	.....
(i) Additions to reserve for bad debts which are not included in Item 18, page 1 of return.....	.....
(j) Additions to reserves for contingencies, etc. (to be detailed):	
(1) .....	.....
(2) .....	.....
(3) .....	.....
(k) Other unallowable deductions (to be detailed):	
(1) Income Tax .....	1,269.82
(2) .....	.....
(3) .....	.....
<hr/>	
14. Total of Line 13.....	\$ 2,009.82
<hr/>	
15. Dividends paid during the taxable year (state whether paid in cash, stock of the corporation, or other property):	
(a) Date paid..... Character.....	\$ .....
(b) Date paid..... Character.....	.....
(c) Date paid..... Character.....	.....
(d) Date paid..... Character.....	.....

16. Other debits to surplus (to be detailed):	
(a) Prior Year Depr. 1145 S. Hope St.....	3,520.24
(b) .....	.....
(c) .....	.....
17. Total of lines 15 and 16.....	\$ 3,520.24

## QUESTIONS

### Kind of Business

1. By means of the key letters given below, identify the corporation's main income-producing activity with one of the general classes, and follow this by a special description of the business sufficient to give the information called for under each general class.

A.—Agriculture and related industries, including fishing, logging, ice harvesting, etc., and also the leasing of such property. State the product or products. B.—Mining and quarrying, including gas and oil wells, and also the leasing of such property. State the product or products. C.—Manufacturing. State the product and also the material if not implied by the name of the product. D.—Construction—excavations, buildings, bridges, railroads, ships, etc., also equipping and installing same with systems, devices, or machinery, without their manufacture. State nature of structures built, materials used, or kind of installations. E1.—Transportation—rail, water, local, etc. State the kind and special product transported, if any. E2.—Public utilities—gas (natural, coal, or water); electric light or

power (hydro or steam generated); heating (steam or hot water); telephone; waterworks or power. E3.—Storage—without trading or profit from sales—(elevators, warehouses, stockyards, etc.). State product stored. E4.—Leasing transportation or utilities. State kind of property. F.—Trading in goods bought and not produced by the trading concern. State manner of trade, whether wholesale, retail, or commission, and product handled. Sales with storage with profit primarily from sales. G.—Service—domestic, including hotels, restaurants, etc.; amusements; other professional, personal, or technical service. State the service. H.—Finance, including banking, real estate, insurance. I.—Concerns not falling in above classes (a) because of combining several of them with no predominant business, or (b) for other reasons.

2. Concerns whose business involves activity falling in two or more of the above general classes, where the same product is concerned, should report business as identified with but one of the above general classes; for example, concerns in A or B which also transport and market their own product exclusively or mainly, should still be identified with classes A or B; concerns in C (manufacturing) which own or control their source of material supply in A or B and which also transport, sell, or install their own product exclusively or mainly, should be identified with manufacturing; concerns in D may control or own the source of supply of mater-

ials used exclusively or mainly in their constructive work; concerns in E1 or E2 may own or control the source of their material or power; concerns in F may transport or store their own merchandise, but its production would identify them with A, B, or C.

3. Answers:

(a) General class (use key letter designation)—  
H.

(b) Main income-producing business (give specifically the information called for under each key letter, also whether acting as principal, or as agent on commission; state if inactive or in liquidation)—  
Real Estate.

Affiliations with Other Corporations

See Instruction 38

4. Is this a consolidated return of two or more corporations?—No

[Balance of paragraph illegible.]

Predecessor Business

6. Did the corporation file a return under the same name for the preceding taxable year?—Yes. Was the corporation [illegible] result, continuation, or reorganization of a business or businesses in existence during this or any prior year since December 31, 1917?—No. If answer is “yes,” give name and address of each predecessor business, and the date of the change in entity.



Upon such change were any asset values increased or decreased?— — If the answer is “yes,” closing balance sheets of old business and opening balance sheets of new business must be furnished.

### Basis of Return

7. Is this return made on the basis of actual receipts and disbursements? If not, describe fully what other basis or method was used in computing net income.—Accrual Basis.

### Valuation of Inventories

8. State whether the inventories at the beginning and end of the taxable year were valued at cost, or cost or market, whichever is lower. If other basis was used, describe fully, state why used and the date inventory was last reconciled with stock.

### List of Attached Schedules

9. Enter below a list of all schedules accompanying this return, giving for each a brief title and the schedule number. The name and address of the corporation should be placed on each separate schedule accompanying the return.

The corporation's books are in care of Chandis Securities Co. Located at 100 No. Broadway, Los Angeles, Cal.

## CHANDIS SECURITIES COMPANY

## INCOME TAX—1929

## OTHER INCOME

## Schedule 10-A

Belridge Oil Company.....	\$17,702.91
Midway Gas Company.....	31.54
Oak Knoll Property.....	4,650.00
Recovery of Bad Debts—Sam H. Thompson.....	500.00
Franklin Booth .....	1,800.00
Gold recovered from Minas Unidas.....	346.46
Globe Ice Cream Company.....	350.00
Rowland Cattle Company.....	570.24
	<hr/>
	<u>\$25,951.15</u>

## CHANDIS SECURITIES COMPANY

## INCOME TAX—1929

## Schedule “22-A”

## Salaries and Wages

Norman Chandler .....	\$ 1,200.00
Helen Chandler .....	245.00
	<hr/>
	<u>\$ 1,445.00</u>

## Schedule “22-F”

## Losses

California Cyanide Co.....	\$15,010.00
L. A. Suburban Homes Co.....	28,888.70
La Cumbre Mine.....	259.70
Minas Unidas .....	181.11
	<hr/>
	<u>\$44,339.51</u>

## CHANDIS SECURITIES COMPANY

## INCOME TAX—1929

## DIVIDENDS RECEIVED

Schedule "H"

Central Investment Company.....	\$ 7.00
Citizens National Trust & Savings Bank.....	2,380.00
District Bond Company.....	870.00
L. A. Athletic Club.....	60.00
L. A. Morris Plan Bank.....	400.00
Mortgage Guarantee Company.....	960.00
The Times-Mirror Company.....	108,882.00
Union Oil Co. of California.....	9.79
Shell Union Oil Corporation.....	2,611.00
Yosemite National Park Co.....	1,176.15
Playa Del Rey Heights Co.....	16,753.60
Southern Pacific Company.....	180.00
The Zeolite Company.....	80.00
Western Air Express.....	199.45
Title Insurance and Trust Company.....	500.00
L. A. First Nat'l. Trust & Savings Bank.....	246.40
Hydraulic Brake Company.....	1,200.00
Security First Nat'l. Trust & Savings Bank.....	271.04

---



---

 \$136,786.43

## CHANDIS SECURITIES COMPANY

## INCOME TAX—1929

## SUNDRY EXPENSES

Schedule "22-C"

Operating Expenses—Trust #3706.....	\$4,661.37
El Tres Hermanos Ranch.....	918.91
Lots 24 and 25, Tract 8623.....	7.50
Hillhurst Park Lots.....	534.00
Forthman Lot 839—45 So. Olive St.....	193.40
Lots 47 and 48, Calipatria.....	65.13
Trust #3222 T. I. & T. Co.....	2.51
Trust #3270 .....	8.33
Clark Lot—931—35 So. Olive St.....	258.75
Kellam Lot—926 So. Olive St.....	78.00
Lot 1, Normandie Hill.....	340.23
Trust #3269 .....	6.25
A. S. Carr Bldg., Calexico, Calif.....	455.57
Imperial Valley Real Estate Allottment #17.....	5.00
Trust R-2946 (Kern County).....	6.25
Lot #2 Normandie Hill.....	97.24
927 No. Irving Blvd.....	52.69
Moses K. Chandler Property.....	250.00
Valley Blvd. and Almanor St.....	2.25
	<hr/>
	<b>\$7,943.38</b>
	<hr/>

## CHANDIS SECURITIES COMPANY

## INCOME TAX—1929

## DEPRECIATION

Kind of Property	Date Acquired	Age When Acquired	Probable Life	Cost	Depreciation This Year	Depreciation Previous Years
Residence House Frame & Brick.....	1917	New	20 Years	\$ 46,138.19	\$2,306.91	\$27,495.46
Furniture and Fixtures.....	1917	New	10 "	21,229.13	1,557.07	19,672.06
Business Block—Calipatria.....	1921	6 Years	20 "	13,500.00	675.00	4,893.75
Brick Building, 933 So. Olive St.....	1922	New	20 "	11,078.89	553.95	3,323.70
Brick Building, 926 So. Olive St.....	1920	New	33½ "	15,000.00	450.00	3,600.00
Automobile—Cadillac Brougham.....	1927	Second Hand	5 Years	1,800.00	360.00	375.00
Brick Building—Calexico.....	1925	Unknown	14 "	37,500.00	2,812.50	8,437.50
Brick Building—1145 S. Hope St.....	1909	New	33½ "	6,170.85	185.13	3,520.24
Residence House 127 No. Irving Blvd.....	1929	Unknown	20 Years	5,023.58	188.39	—
				<u>\$157,440.64</u>	<u>\$9,088.95</u>	<u>\$71,317.71</u>

## Page 4 of Return

SCHEDULE A—COST OF MANUFACTURING OR PRODUCING GOODS (See Instruction 2)  
(Not filled in)

SCHEDULE B—PROFIT FROM SALE OF REAL ESTATE, STOCKS, BONDS, ETC. (See Instruction 8)

1. Kind of Property	2. Date Acquired	3. Amount Received	4. Depreciation Allowable Since Acquisition	5. Cost or Value As of March 1, 1913 Whichever Greater	6. Subsequent Improvements	7. Net Profit (Enter as Item 8)
Stock—Western Air Express	10-24-25	\$54,680.25	\$ —	\$4,000.—	\$ —	\$50,680.25
Stock—Western Air Express	10-24-25	10,462.90	—	600.—	—	9,862.90
Bonds—Golden State Woolen Mill	Various	6,750.—	—	6,524.12	—	225.88
		<u>71,893.15</u>		<u>11,124.12</u>		<u>60,769.03</u>

State how property was acquired.....



## SCHEDULE C—COMPENSATION OF OFFICERS (See Instruction 12)

1. Name of Officer	2. Official Title	3. Time Devoted to Business	SHARES OF STOCK OWNED		6. Amount of Compensation (Enter as Item 12)
			4. Common	5. Preferred	
Harry Chandler	President	All necessary	20		\$12,000.—
Marian Otis Chandler	Secretary	All necessary	200		18,500.—
					30,500.—

## SCHEDULE D—COST OF REPAIRS

(See Instruction 14)

1. Items	2. Amount (Enter as Item 14)	1. Items	2. Amount (Enter as Item 16)
Salaries and wages	\$	State, County-City-Irrigation District Taxes	\$26,250.42
Building—933 So. Olive St	1,770.74	State Franchise Tax	25.00
Building—926 So. Olive St	1,591.77		
A. S. Carr Building—Calexico	1,182.67		
			26,275.42
			4,545.18

## SCHEDULE E—TAXES PAID

(See Instruction 16)

## SCHEDULE F—EXPLANATION OF LOSSES BY FIRE, STORM, ETC. (See Instruction 17)

(Not filled in)

## SCHEDULE G—BAD DEBTS

(See Instruction 18)

## SCHEDULE H—DIVIDENDS DEDUCTIBLE

(See Instruction 19)

1. Year	2. Sales on Account	3. Bad Debts	Amount of Dividends		
			1. Name of Corporation	2. Domestic	3. Foreign
Cal. Cyanide Co.....	No Assets	\$3,900.—	(See Separate Schedule)		
Eugene Gunning .....	" "	100.—			
M. Walters .....	" "	500.—			
		<hr/>			
		4,500.—			

## SCHEDULE I—EXPLANATION OF DEDUCTION FOR DEPRECIATION (See Instruction 20)

(See Separate Schedule)

## AFFIDAVIT

We, the undersigned, president and treasurer of the corporation for which this return is made, being severally duly sworn, each for himself deposes and says that this return, including the accompanying schedules and statements, has been examined by him and is, to the best of his knowledge and belief, a true and complete return made in good faith, for the taxable year stated, pursuant to the Revenue Act of 1928 and the Regulations issued thereunder.

HARRY CHANDLER

President

[Corporate

Seal]

H. E. DOWNING

Asst.

Sworn to and subscribed before me this 15 day of March, 1930.

[Notarial

Seal]

ARTHUR CRUM,

(Signature of officer administering oath)

Notary Public in and for the County of Los Angeles,  
State of California.

[Endorsed]: No. 9735. United States Circuit Court of Appeals for the Ninth Circuit. George D. Martin, as Internal Revenue Agent in Charge for the Sixth United States Internal Revenue Collection District of California, Appellant, vs. Chandis Securities Company and H. E. Downing, as Assistant Secretary of Chandis Securities Company, Appellees. Transcript of Record. Upon Appeal from the District Court of the United States for the Southern District of California, Central Division. Filed February 3, 1941. Paul P. O'Brien, Clerk of the United States Circuit Court of Appeals for the Ninth Circuit.

In the United States Circuit Court of Appeals  
for the Ninth Circuit

No. 9735

GEORGE D. MARTIN, as Internal Revenue Agent  
in Charge for the Sixth United States Internal  
Revenue Collection District of California,  
Petitioner and Appellant,

vs.

CHANDIS SECURITIES COMPANY and H. E.  
DOWNING, as Assistant Secretary of Chandis  
Securities Company,  
Respondents and Appellees.

STATEMENT OF POINTS ON WHICH AP-  
PELLANT INTENDS TO RELY AND DES-  
IGNATION OF PARTS OF THE RECORD  
NECESSARY FOR THE CONSIDERA-  
TION THEREOF.

The appellant states that he intends to rely upon the points mentioned in the Statement of Points on Appeal filed in the District Court and found at pages 216 to 219, inclusive, of the Record upon Appeal herein.

The appellant designates the following parts of the record which he thinks necessary for the consideration of the points relied upon by him in this appeal:

Pages 2 to 11, inclusive, of the record, consisting of a Petition for Production of Records and Exhibits "A", "B" and "C" thereto attached; but omitting pages 12 to 24, inclusive, of the record, consisting of a Memorandum of Points and Authorities attached to the foregoing Petition and marked Exhibit "D".

Pages 26 to 28, inclusive, of the record, consisting of an Order for Production of Records.

Pages 30 and 31 of the record, consisting of Orders continuing the return date of the Order for Production of Records.

Pages 33 to 56, inclusive, of the record, consisting of a Notice of Motion to Quash the Order for Production of Records, the supporting affidavit of H. E. Downing (pages 38 to 46, inclusive, of the record); letter of reply (page 48 of the record); copy of Summons Duces Tecum (pages 49 and 50 of the record); letter of H. E. Downing to George D. Martin (page 51 of the record); Stipulation of Facts (pages 52 to 56, inclusive, of the record).

Print pp. 92-110.

Omit pages 57 to 129, inclusive, of the record, (consisting of the Opinion of the Board of Tax Appeals, pages 92 to 98, inclusive, of the record; Findings of Fact and Opinion, pages 99 to 105, inclusive, of the record; Commissioner's letter of final determination, pages 106 to 129, inclusive, of the record).

Pages 131 to 133, inclusive, of the record, con-



sisting of the affidavit of Charles W. Donnally dated May 4, 1940.

Pages 134 to 185, inclusive, of the record, consisting of the affidavit of Warner E. Williams (pages 134 to 137, inclusive, of the record); and the exhibits thereto defined as follows: Exhibit 1, letter dated November 25, 1931, (pages 138 to 144, inclusive, of the record) but omitting lines 16 to 24, inclusive, on page 140; Exhibit 2, protest to Internal Revenue Agent (pages 145 and 146 of the record); Exhibit 3, letter dated March 28, 1932, (pages 147 and 148 of the record); Exhibit 4, letter dated April 4, 1932, pages 149 to 151, inclusive, of the record); Exhibit 5, memo from George M. Thompson (pages 152 to 156, inclusive, of the record); Exhibit 6, income tax return of Marion Otis Chandler for 1929 (pages 157 to 163, inclusive, of the record); but omitting page 163 from the printed record. Exhibit 7, income tax return of Marion Otis Chandler for 1930 (Pages 164 to 173, inclusive, of the record); Exhibit 8, waiver of Mrs. Chandler found on page 174 of the record to be omitted from the printed record; Exhibit 9, corporation income tax return of Chandis Securities Company for 1923 (pages 175 to 185, inclusive, of the record; but omitting from the printed record Schedules "A", "B", "F" and "I" of page 176 and all of page 180 of the record except the affidavit thereon.

Page 186 of the record, consisting of an Order continuing the hearing on the return date of subpoena.

Pages 187 to 190, inclusive, of the record, consisting of an affidavit of H. E. Downing.

**Page 192** of the record, consisting of an Order continuing the hearing on the return date of subpoena.

Pages 193 to 198, inclusive, of the record, consisting of an affidavit of Charles W. Donnally.

Pages 200 and 201 of the record, consisting of an affidavit of Warner E. Williams.

Pages 203 and 204 of the record, consisting of a counter-affidavit of H. E. Downing.

Page 206 of the record, consisting of Order of June 10, 1940, granting the Motion to Quash Order for Production of Records.

Pages 207 to 211, inclusive, of the record, consisting of the Opinion of the District Court.

Page 213 of the record, consisting of Notice of Appeal.

Page 215 of the record, consisting of Order extending time to docket record on appeal.

Pages 216 to 219, inclusive, of the record, consisting of Statement of Points on appeal, but omitting lines 30 to 32, inclusive, on page 218 and lines 1 to 17, inclusive, on page 219 from the printed record.

All orders extending the time to docket record on appeal granted by the Appellate Court.

Certificate of the Clerk of the United States District Court.

Statement of Points upon which appellant will

rely and designation of record by appellant entitled in the Circuit Court of Appeals.

Dated: This 29th day of January, 1941.

WM. FLEET PALMER—E. H.

United States Attorney

E. H. MITCHELL—E. H.

Asst. U. S. Attorney

EUGENE HARPOLE

Special Attorney,

Bureau of Internal Revenue.

SAMUEL TAYLOR—E. H.

Special Attorney,

Bureau of Internal Revenue.

Attorneys for Petitioner and  
Appellant.

Receipt of two copies of the foregoing Statement of Points on which Appellant intends to rely and Designation of Parts of the Record Necessary for the Consideration Thereof are acknowledged this 29 day of January, 1941.

A. CALDER MACKAY,

T. B. COSGROVE,

F. J. O'NEIL,

F. B. YOAKUM, JR.,

By F. B. YOAKUM, JR

Attorneys for Respondents  
and Appellees.

[Endorsed]: Filed Feb. 3, 1941. Paul P. O'Brien,  
Clerk.

[Title of Circuit Court of Appeals and Cause.]

DESIGNATION BY APPELLEES OF ADDITIONAL PORTIONS OF RECORD MATERIAL TO CONSIDERATION OF APPEAL

To Honorable Paul P. O'Brien, Clerk of the above entitled Court, and to George D. Martin, as Internal Revenue Agent in Charge for the Sixth United States Internal Revenue Collection District of California, Petitioner and Appellant, and to his Attorneys, Wm. Fleet Palmer, E. H. Mitchell, Eugene Harpole and Samuel Taylor:

You and each of you will please take notice that under and pursuant to the provisions of Rule 19(6) of the Rules of Practice of the above entitled court, respondents and appellees designate the following additional portions of the record deemed material to a consideration of the appeal which respondents and appellees request be included in the printed record:

1. Pages 92 to 110, inclusive, of the Record; consisting of Exhibits 6, 7 and 8, which are attached to the Affidavit of H. E. Downing dated March 19, 1940.

2. Pages 131 to 133, inclusive, of the Record; being Affidavit of Charles W. Donnally dated April 5, 1940.

3. Page 163 of the Record; being a part of Exhibit 6 attached to the Warner E. Williams affidavit dated April 6, 1940.

Material to Consideration of Appeal is hereby acknowledged this 11th day of March, 1941.

WM. FLEET PALMER,  
United States Attorney

E. H. MITCHELL,  
Assistant United States At-  
torney

EUGENE HARPOLE,  
Special Attorney  
Bureau of Internal Revenue

SAMUEL TAYLOR,  
Special Attorney  
Bureau of Internal Revenue

By EUGENE HARPOLE

**M.**

Attorneys for Petitioner and  
Appellant

[Endorsed]: Filed March 13, 1941. Paul P.  
O'Brien, Clerk.